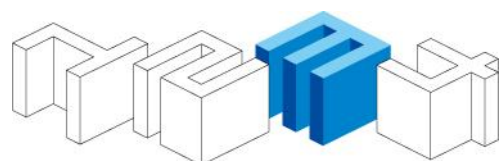




**Financial report for the third quarter  
and nine months of 2013**  
(unaudited)

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## Financial report for the third quarter and nine months of 2013 (unaudited)

<b>Business name</b>	Nordecon AS
<b>Registry number</b>	10099962
<b>Address</b>	Pärnu mnt 158/1, 11317 Tallinn
<b>Domicile</b>	Republic of Estonia
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<b>Corporate website</b>	<a href="http://www.nordecon.com">www.nordecon.com</a>
<b>Core business activities</b>	Construction of buildings Civil engineering Specialised construction activities Architectural and engineering activities
<b>Financial year</b>	1 January 2013 – 31 December 2013
<b>Reporting period</b>	1 January 2013 – 30 September 2013
<b>Council</b>	Toomas Luman (chairman of the council), Alar Kroodo, Andri Hõbemägi, Meelis Milder, Tiina Mõis, Ain Tromp
<b>Board</b>	Jaano Vink (chairman of the board), Avo Ambur, Erkki Suurorg
<b>Auditor</b>	KPMG Baltics OÜ



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## About the Group

Nordecon AS (previous names AS Eesti Ehitus and Nordecon International AS) began operating as a construction company in 1989. Since then, we have grown to become one of the leading construction groups in Estonia and a strong player in all segments of the construction market.

For years, our operating strategy has been underpinned by a consistent focus on general contracting and project management and a policy of maintaining a reasonable balance between building and infrastructure construction. We have gradually extended our offering with activities that support the core business such as road maintenance, concrete works and other services that provide added value, improve the Group's operating efficiency and help manage our business risks.

Nordecon's specialists offer our customers high-quality integrated solutions in the construction of commercial, residential, industrial and public buildings as well as infrastructure – roads, landfill sites, utility networks and port facilities. In addition, the Group is involved in the construction of concrete structures, leasing out heavy construction equipment, and road maintenance.

Besides Estonia, Group entities currently operate in Ukraine and Finland.

Nordecon AS is a member of the Estonian Association of Construction Entrepreneurs and the Estonian Chamber of Commerce and Industry and has been awarded international quality management certificate ISO 9001, international environment management certificate ISO 14001 and international occupational health and safety certificate OHSAS 18001.

Nordecon AS has been listed on the NASDAQ OMX Tallinn Stock Exchange since 18 May 2006.

## VISION

To be the preferred partner in the construction industry for customers, subcontractors and employees.

## MISSION

To offer our customers building and infrastructure construction solutions that meet their needs and fit their budget and thus help them maintain and increase the value of their assets.

## SHARED VALUES

### Professionalism

We are professional builders – we apply appropriate construction techniques and technologies and observe generally accepted quality standards. Our people are results-oriented and go-ahead; we successfully combine our extensive industry experience with the opportunities provided by innovation.

### Reliability

We are reliable partners – we keep our promises and do not take risks at the expense of our customers. Together, we can overcome any construction challenge and achieve the best possible results.

### Openness

We act openly and transparently. We observe best practice in the construction industry and uphold and promote it in society as a whole.

### Employees

We inspire our people to grow through needs-based training and career opportunities consistent with their experience. We value our employees by providing them with a modern work environment that encourages creativity and a motivation system that fosters initiative.



## Directors' report

### Changes in the Group's business operations in the reporting period

#### Changes in the Group's Estonian operations

There were no changes in the Group's Estonian operations during the reporting period. The Group was involved in building and infrastructure construction, being active in practically all market sub-segments. A significant proportion of the Group's core business was conducted by the parent, Nordecon AS, which continued to act as a holding company for the Group's main subsidiaries. In addition to the parent, construction management services were rendered by the subsidiary AS Eston Ehitus, which operates mostly in western and central Estonia.

As regards other main business lines, the Group continued to provide concrete services (Nordecon Betoon OÜ), leasing out heavy construction machinery and equipment (Kaurits OÜ), and providing regional road maintenance services in the Keila area in Harju county and in Järva and Hiiu counties (delivered by Nordecon AS, Järva Teed AS and Hiiu Teed OÜ respectively).

We did not enter any new operating segments in Estonia.

#### Changes in the Group's foreign operations

In line with the current strategy, our chosen foreign markets are Latvia, Lithuania and Ukraine. In Finland, we operate in a narrow market segment and do not intend to expand to other segments.

##### Latvia

During the period, there were no changes in our Latvian operations. We have currently no construction contracts in progress in Latvia and no subsidiaries incorporated in Latvia.

##### Lithuania

During the period, there were no changes in our Lithuanian operations. We have currently no construction contracts in progress in Lithuania and the operations of our Lithuanian subsidiary Nordecon Statyba UAB have been suspended.

##### Ukraine

There were no changes in our Ukrainian operations during the reporting period. The economic and political situation in the country did not change and, thus, we were not able to grow our Ukrainian business. However, the number of bids requested for new construction projects increased somewhat.

Real estate development projects that require extensive investment (we have currently an interest in two conserved development projects) remain suspended to minimise the risks until the situation in Ukraine becomes clearer. To secure the investment, in 2012 the Group and its co-owners privatised the land of the V.I. Center TOV development project and in the first half of 2013 the privatised plots were encumbered with mortgages created for the benefit of the owners.

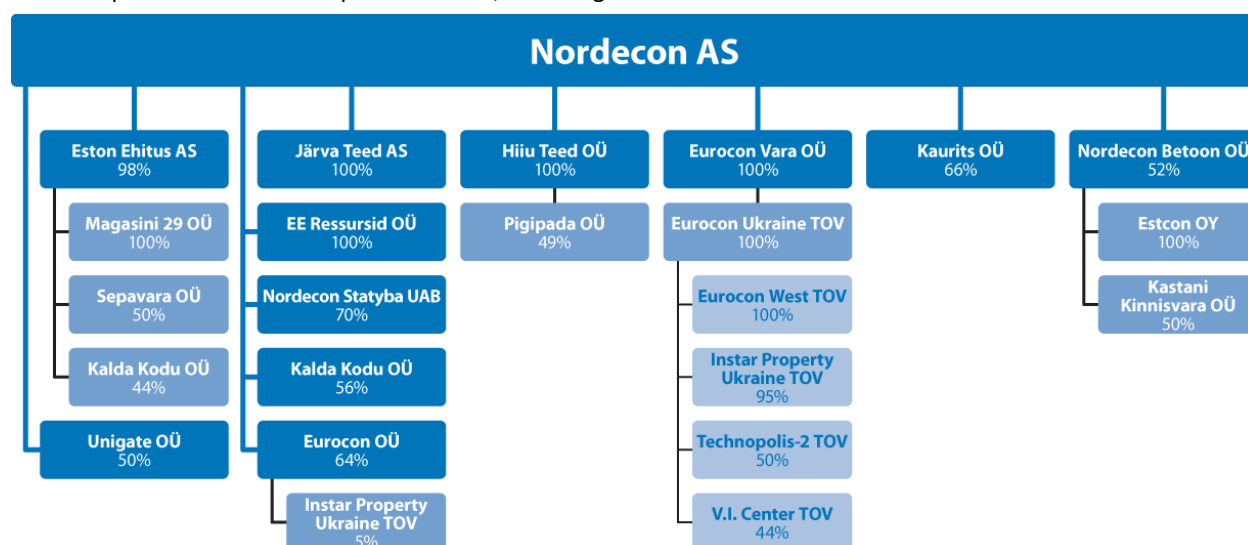
##### Finland

There were no changes in our Finnish operations during the reporting period. The Group's subsidiary Nordecon Betoon OÜ together with its Finnish subsidiary Estcon Oy continued to provide subcontracting services in the concrete works sector in Finland.



## Group structure

The Group's structure at 30 September 2013, including interests in subsidiaries and associates\*



\* The chart does not include the subsidiaries OÜ Eesti Ehitus, OÜ Aspi, OÜ Linnaehitus, OÜ Mapri Projekt, Infra Ehitus OÜ, OÜ Paekalda 2, OÜ Paekalda 3, OÜ Paekalda 7 and OÜ Paekalda 9 that currently do not conduct any significant business operations. The first four were established to protect former business names. Nor does the chart include investments in which the Group's interest is less than 20%.

### Significant changes in the Group's structure

#### Pigipada OÜ

In January, Nordecon AS sold its 49% interest in the associate Pigipada OÜ to its subsidiary Hiiu Teed OÜ. The core business of Pigipada OÜ is refining oil products. In particular, the entity produces bitumen emulsion, a binder required in road surfacing and asphalt laying works. The purpose of the intra-group restructuring was to allow the main consumer of Pigipada OÜ's output to acquire a stake in the entity and thereby to create synergies between the two companies that operate in the same value chain.

#### MP Ukraine TOV

In June, liquidation of the Group's Ukrainian entity, MP Ukraine TOV, was finalised. The entity, which conducted no business operations during its life cycle, used to belong to Nordecon Betoon OÜ (a 95% stake) and Eurocon Ukraine TOV (a 5% stake).



## Financial review

### Financial performance

Nordecon group's gross profit for the first nine months of 2013 amounted to 9,426 thousand euros (9M 2012: 6,026 thousand euros) and gross margin was 7.0% (9M 2012: 5.1%).

In previous interim reports we have described the work done to increase the Group's profitability. The measures applied, including extensive internal restructuring and cost cutting, have been effective. However, they have their limits and the rate of internally generated growth in profitability cannot be maintained indefinitely.

The profit from long-term construction contracts is recorded gradually over the contract term, based on the stage of completion of contract activity. During the life of a contract, our estimates of the profitability of the contract may change. If this happens, the proportionate share of contract profit already recognised in the financial statements is adjusted to reflect the new estimate. In the reporting period (particularly in the third quarter), a substantial share of our construction projects reached the stage of completion and their actual outcomes could be specified. Many of the projects were highly complex, involving construction risks whose potential costs were considered in making the profitability estimates. Thanks to effective performance, the costs were not incurred. In particular, revision of outcomes increased profit on projects for the construction of utility networks and environmental engineering. Although the projects were won by making the lowest bids in public tenders, the experience our people have gained in those segments over the years allowed us to benefit from strong improvements in productivity.

Margin improvements have also been supported by the external environment. Market growth in the previous year, relative stability in materials and subcontracting prices, and a slight decline in competitive pressure in certain segments have created conditions that favour a rise in the projects' average profit margin.

The Group's administrative expenses for the first nine months of 2013 totalled 3,567 thousand euros, reflecting a certain decrease compared with a year ago (9M 2012: 3,941 thousand euros). The ratio of administrative expenses to revenue (12 months rolling) was 2.8% (9M 2012: 3.3%). Our cost-control measures continue to yield strong results, allowing us to maintain administrative expenses below the target ceiling, i.e. 5% of revenue.

Operating profit for the first nine months of 2013 was 5,587 thousand euros (9M 2012: 2,106 thousand euros) and EBITDA was positive at 7,088 thousand euros (9M 2012: 3,735 thousand euros).

The Group ended the reporting period with a net profit of 5,309 thousand euros (9M 2012: 1,988 thousand euros). The profit attributable to owners of the parent, Nordecon AS, was 5,137 thousand euros (9M 2012: 1,630 thousand euros).

In the last quarter of the year we are going to complete many projects (including road construction ones) whose total volume is significant. The probability of realisation of their performance risks is higher than that of the projects, which reached the stage of completion in the third quarter. Moreover, by the date of release of the preliminary annual results, the court will probably have ruled in the matter concerning the action brought against the Estonian Maritime Museum (for further information, see the *Credit risk* section of the chapter *Description of the main risks* in the directors' report).

### Cash flows

Operating activities of the first nine months of 2013 resulted in a net cash outflow of 5,133 thousand euros (9M 2012: a net cash inflow of 1,762 thousand euros). When the Group operates with a profit, negative operating cash flow results primarily from a mismatch between the projects' actual stage of completion (recognised revenue) and the amounts billed to customers. Cash inflow is also reduced by the amounts retained under the terms of construction contracts, which are released when construction activity ends. Retentions extend from 5% to 10% of the volume of a contract, being comparable to its profit margin. In addition, we have launched a housing development project. In the comparative period, we did not have such projects and before we start selling the apartments, the project's cash flow will be negative.

Besides the above, our operating cash flows continued to be influenced by differences in settlement terms: the payment terms agreed with customers are long and in the case of public procurement generally extend from 45 to 56 days while subcontracts ordinarily have to be paid within 21 to 45 days. We use factoring to counteract the impacts of cyclical and overdraft facilities to raise working capital.



Cash flows from investing activities resulted in a net outflow of 286 thousand euros (9M 2012: a net outflow of 2,308 thousand euros). We continued to invest in property, plant and equipment although not as extensively as a year ago. The volume of loans provided to associates decreased considerably and we received more loan repayments. In addition, we made a contribution of 350 thousand euros to restore an associate's negative equity.

Financing activities resulted in a net cash inflow of 4,330 thousand euros (9M 2012: a net outflow 298 thousand euros). Loan receipts exceeded loan repayments by 6,483 thousand euros compared with 2,183 thousand euros in the first nine months of 2012. We borrowed more working capital to meet the needs of growing business volumes and to cover negative operating cash flow. On the other hand, loan repayments, which were made to meet commitments under refinancing agreements, were larger too.

At 30 September 2013, the Group's cash and cash equivalents totalled 9,140 thousand euros (30 September 2012: 9,066 thousand euros). Management's comments on liquidity risks are presented in the chapter *Description of the main risks* in the directors' report.

## Key financial figures and ratios

Figure/ratio	9M 2013	9M 2012	9M 2011	2012
Revenue (EUR'000)	134,733	117,054	103,260	159,422
Revenue growth	15.1%	13.4%	37.2%	7.9%
Net profit/loss (EUR'000)	5,309	1,988	-4,039	1,926
Profit/loss attributable to owners of the parent (EUR'000)	5,137	1,630	-4,250	1,477
Weighted average number of shares	30,756,728	30,756,728	30,756,728	30,756,728
Earnings per share (EUR)	0.17	0.05	-0.14	0.05
Administrative expenses to revenue	2.6%	3.4%	3.2%	3.4%
Administrative expenses to revenue (rolling)	2.8%	3.3%	3.8%	3.4%
EBITDA (EUR'000)	7,088	3,735	-1,846	4,833
EBITDA margin	5.3%	3.2%	-1.8%	3.0%
Gross margin	7.0%	5.1%	-0.7%	5.2%
Operating margin	4.1%	1.8%	-3.5%	1.7%
Operating margin excluding gains on asset sales	4.0%	1.4%	-3.9%	1.4%
Net margin	3.9%	1.7%	-3.9%	1.2%
Return on invested capital	8.9%	4.6%	-5.1%	5.2%
Return on equity	16.1%	6.8%	-12.8%	6.6%
Equity ratio	27.0%	25.7%	27.6%	27.1%
Gearing	42.8%	41.1%	37.6%	33.7%
Current ratio	1.12	1.08	1.18	1.08
	<b>30 Sept 2013</b>	<b>30 Sept 2012</b>	<b>30 Sept 2011</b>	<b>31 Dec 2012</b>
Order book (EUR'000)	85,765	146,070	155,421	127,259

Revenue growth = (revenue for the reporting period/ revenue for the previous period) – 1*100	Operating margin excluding gains on asset sales = ((operating profit - gains on sale of property, plant and equipment - gains on sale of investment properties and real estate held for sale)/revenue) *100
Earnings per share (EPS) = net profit attributable to owners of the parent / weighted average number of shares outstanding	Net margin = (net profit for the period/revenue)*100
Administrative expenses to revenue = (administrative expenses/ revenue)*100	Return on invested capital = ((profit before tax + interest expense)/ the period's average (interest-bearing liabilities + equity))*100
Administrative expenses to revenue (rolling) = (past four quarters' administrative expenses/past four quarters' revenue)*100	Return on equity = (net profit for the period/ the period's average total equity)*100
EBITDA = operating profit + depreciation and amortisation + impairment losses on goodwill	Equity ratio = (total equity/ total liabilities and equity)*100
EBITDA margin = (EBITDA/revenue)*100	Gearing = ((interest-bearing liabilities – cash and cash equivalents)/ (interest-bearing liabilities + equity))*100
Gross margin = (gross profit/revenue)*100	Current ratio = total current assets/ total current liabilities
Operating margin = (operating profit/revenue)*100	





## Performance by geographical market

In the first nine months of 2013, around 2% of the Group's revenue was generated outside Estonia compared with 1% in the same period in 2012.

	9M 2013	9M 2012	9M 2011	2012
Estonia	98%	99%	96%	98%
Finland	2%	1%	2%	2%
Belarus	0%	0%	2%	0%

Finnish revenues comprise revenue from concrete works. We expect the contribution of foreign markets to remain at a similar level throughout the year.

Geographical diversification of the revenue base is a consciously deployed strategy by which we mitigate the risks resulting from excessive concentration on a single market. Although in the long term our strategy foresees increasing foreign operations, in the short term the Group will focus on the Estonian market that it knows best and which entails fewer known market risks. The Group's vision of its future operations in foreign markets is described in the chapter *Outlooks of the Group's geographical markets* in the directors' report.

## Performance by business line

The core business of Nordecon group is general contracting and project management in the field of building and infrastructure construction. The Group is involved in the construction of commercial and industrial buildings and facilities, road construction and maintenance, specialist and environmental engineering, concrete works and real estate development.

The Group's revenue for the first nine months of 2013 amounted to 134,733 thousand euros, a 15% improvement on the 117,054 thousand euros generated in the comparative period.

The Group aims to maintain the revenues of its operating segments (Buildings and Infrastructure) in balance as this helps disperse risks and provides better opportunities for continuing operations under stressed circumstances when one segment experiences shrinkage. The Group has set a strategic ceiling for revenue from the construction of apartment buildings, which has to remain below 20% of total sales.

### Segment revenues

In the first nine months of 2013, our two main operating segments, Buildings and Infrastructure, generated revenue of 52,294 thousand euros and 79,587 thousand euros respectively. The corresponding figures for the same period in 2012 were 49,747 thousand euros and 64,674 thousand euros (see note 8). The larger contribution and absolute figures of the Infrastructure segment (also in the previous year) are mostly attributable to the performance of major road construction projects.

Operating segments*	9M 2013	9M 2012	9M 2011	2012
Buildings	38%	42%	48%	42%
Infrastructure	62%	58%	52%	58%

\* In the directors' report the Ukrainian buildings segment and the EU buildings segment, which are disclosed separately in the financial statements as required by IFRS 8 *Operating Segments*, are presented as a single segment.

In the directors' report, projects have been allocated to operating segments based on their nature (i.e. building or infrastructure construction). In the segment reporting presented in the financial statements, allocation is based on the subsidiaries' main field of activity (as required by IFRS 8 *Operating Segments*). In the financial statements, the results of a subsidiary that is primarily engaged in infrastructure construction are presented in the Infrastructure segment. In the directors' report, the revenues of such a subsidiary are presented based on their nature. The differences between the two reports are not significant because in general Group entities specialise in specific areas except for the subsidiary Nordecon Betoön OÜ that is involved in both building and infrastructure construction. The figures for the parent company have been allocated in both parts of the interim report based on the nature of the work.



### Sub-segment revenues

Last year's rise in private sector investments laid the foundation for rapid revenue growth in the commercial buildings sub-segment. We continued work under previously secured contracts for the construction of commercial buildings in Tallinn and Tartu and secured a contract of over 15 million euros for building an extension to the ASTRI shopping centre in Narva and a contract of over 9 million euros for building the Stroomi shopping centre. We expect the investment activity of private sector customers to remain robust and the contribution of the sub-segment to remain substantial.

The revenues of the public buildings sub-segment decreased because we did not have any major projects comparable to those performed a year ago. The competitive situation in this market segment is particularly challenging: it is hard to win a contract without taking excessive risks but our current policy is to avoid such risks. No major procurement tenders are expected to be announced in this sub-segment in 2013 and, thus, volumes will probably not expand. Our largest ongoing projects included the construction of the Translational Medicine Centre of the University of Tartu, Phase V in the project of St Paul's Church in Tartu and an academic building for the NCO School of the Estonian National Defence College.

In the industrial and warehouse facilities sub-segment most of the revenue resulted from the construction of buildings procured by the agricultural sector. However, the volume of such work was smaller than in the previous years because the current EU budget period is coming to an end and thus allocations from the EU structural funds that co-finance the projects are decreasing. Shrinkage in the sub-segment's revenues has been counterbalanced by private sector investments in new industrial and production buildings. For example, in the reporting period, we won a contract of over 9 million euros for building a dairy farm complex at Väätsa.

The revenues of the apartment buildings sub-segment resulted mostly from general contracting. On a whole-year basis, the contribution of the sub-segment should increase because in May we won a contract of around 10 million euros for the construction of an apartment building at Piritä tee 26 in Tallinn (our recent years' largest apartment building contract). The year has also been successful in the sale of the last apartments and office premises in the Tigutorn development project. At period-end, only 4 Tigutorn apartments were still on sale. Phase I in our Magasini 29 development project ([www.magasini.ee](http://www.magasini.ee)), which was launched this year, will be completed in 2014.

Revenue distribution within Buildings segment	9M 2013	9M 2012	9M 2011	2012
Commercial buildings	47%	24%	10%	26%
Industrial and warehouse facilities	29%	28%	43%	35%
Public buildings	20%	44%	45%	36%
Apartment buildings	4%	4%	2%	3%

As expected, the main revenue source for the Infrastructure segment was road construction. We are currently working on several large projects that involve not only seasonally restricted operations such as asphalt-laying but also various kinds of earthwork and construction of structures, which could also be carried out in the winter weather of the beginning of the year. Since most of the work relating to projects in progress will be performed in 2013, the contribution of the sub-segment should remain high.

In specialist engineering, we continued our work at Sillamäe port and Kärdla guest harbour. The contribution of the sub-segment has decreased compared with the previous year because most of the construction work at Sillamäe port was completed in 2012. We do not expect to win any major public or private specialist engineering projects in the remaining part of the year.

In 2012 Nordecon secured a number of environmental engineering contracts. Most of the construction work relating to them falls in 2013. In addition, in the reporting period we signed a contract of 6.4 million euros for the reconstruction of the wastewater treatment plant of the town of Paide. Thus, the contribution of environmental engineering will probably remain larger than in the previous year, with some of the rise resulting from shrinkage in the construction of utility networks (other engineering). The decrease in the latter is consistent with general market developments. The current year is the last one in the EU financial framework that is coming to an end and most of the work to be conducted with the support of allocated funds has already been awarded.

Revenue distribution within Infrastructure segment	9M 2013	9M 2012	9M 2011	2012
Road construction and maintenance	56%	49%	56%	51%
Specialist engineering (including hydraulic engineering)	8%	15%	1%	15%
Other engineering	24%	31%	33%	27%
Environmental engineering	12%	5%	10%	7%



## Order book

At 30 September 2013, our order book stood at 85,765 thousand euros, a 41% decrease compared with a year ago.

The largest decrease in our order book (backlog of contracts signed but not yet performed) has occurred in road construction (approx. 77%) where in the past year we have been working on three large public procurement projects: (the Aruvalla-Kose section on the Tallinn-Tartu motorway, Tartu western bypass and Tartu eastern ring road). New national investments in large-scale road construction projects have been practically non-existent. In 2013, the state will probably select contractors for two large road construction projects but the total volume of the contracts will be less than 15 million euros. The order book for the construction of outdoor utility networks (other engineering sub-segment in the directors' report) has shrunk too, because such work is typically procured with the support of the EU structural funds but in the last year of the EU budget period relevant allocations have been expectedly smaller.

On the other hand, the order books of the commercial buildings, industrial and warehouse facilities, and environmental engineering sub-segments have increased. In the case of the first two the rise is attributable to growth in private sector investments. In the case of the third, it has been achieved thanks to successful bidding and, partly, the fact that towards the end of the current EU budget period EU-supported investments in environmental engineering projects have increased.

The order book no longer includes the remaining balance of the Tivoli housing development project in Tallinn city centre (30 September 2012: 12,951 thousand euros). Nordecon published a stock exchange announcement on the termination of the contract on 13 June 2013.

As at the end of	9M 2013	9M 2012	9M 2011	2012
Order book (EUR'000)	85,765	146,070	155,421	127,259

At the reporting date, contracts secured by the Buildings segment and the Infrastructure segment accounted for 69% and 31% of the order book respectively. This is a radical change: compared with recent years the figures for the two segments have reversed (30 September 2012: 30% and 70% respectively). Building construction contracts will continue to dominate the order book until the end of this year and probably also in the near future. In the next EU budget period (2014-2020) investments in infrastructure construction, which to date have mostly been made with the support of the EU structural funds, will not be as large as they were in the current period (2007-2013). In particular, this applies to next year because the national investment plan has not yet been adopted. Hence, we expect the revenues of the Infrastructure segment to decline in 2014 (for further information, see the *Business risks* section of the chapter *Description of the main risks* in the directors' report).

Between the reporting date (30 September 2013) and the date of release of this report, Group companies have secured additional construction contracts of approximately 3,768 thousand euros.

## People

### Staff and personnel expenses

In the first nine months of 2013, the Group (the parent and the subsidiaries) employed, on average, 784 people including 360 engineers and technical personnel (ETP). The number of staff did not increase significantly compared with a year ago.

#### Average number of the Group's employees (at the parent and the subsidiaries)

	9M 2013	9M 2012	9M 2011	2012
ETP	360	372	362	367
Workers	424	417	390	397
<b>Total average</b>	<b>784</b>	<b>789</b>	<b>752</b>	<b>764</b>

The Group's personnel expenses for the first nine months of 2013 including all taxes totalled 13,584 thousand euros, 15% up on the comparative period when the figure was 11,835 thousand euros. Personnel expenses have increased due to growth in both operating volumes and performance bonuses. Selective increases of basic salaries have had less impact.



The service fees of the members of the council of Nordecon AS for the first nine months of 2013 amounted to 120 thousand euros and associated social security charges totalled 40 thousand euros (9M 2012: 132 thousand euros and 44 thousand euros respectively). The figures (also for 2012) include the provisions made in the third quarter for performance bonuses that may be paid based on the Group's result of operations.

The service fees of the members of the board of Nordecon AS amounted to 195 thousand euros and associated social security charges totalled 64 thousand euros (9M 2012: 291 thousand euros and 96 thousand euros respectively, including the remuneration of the member of the board that was removed on 30 April 2012). The figures (also for 2012) include the provisions made in the third quarter for performance bonuses that may be paid based on the Group's result of operations.

#### Labour productivity and labour cost efficiency

In recent years, the number of the Group's employees has been relatively stable and thus the rise in nominal labour productivity stems mostly from revenue growth. Nominal labour cost efficiency for the period was weakened by growth in performance bonuses paid in the context of improved profitability. In comparative periods, the proportion of performance bonuses in the Group's personnel expenses was smaller. Basic salaries have not been substantially increased. Payment of performance bonuses is an ordinary activity that is linked to the achievement of certain profit targets. Compared with comparative historical figures, the period's nominal labour cost efficiency was relatively high.

We measure the efficiency of our core business using the following productivity and efficiency indicators, which are based on the number of employees and personnel expenses paid:

	9M 2013	9M 2012	9M 2011	2012
Nominal labour productivity (rolling), (EUR'000)	231.6	213.0	173.8	208.7
Change against the comparative period	8.7%	22.5%	39.6%	3.2%
Nominal labour cost efficiency (rolling), (EUR'000)	9.5	10.4	8.8	9.5
Change against the comparative period	-8.3%	18.5%	34.2%	-8.6%

Nominal labour productivity (rolling) = (past four quarters' revenue) / (past four quarters' average number of employees)

Nominal labour cost efficiency (rolling) = (past four quarters' revenue) / (past four quarters' personnel expenses)



## Share and shareholders

### Share information

<b>Name of security</b>	Nordecon AS ordinary share
<b>Issuer</b>	Nordecon AS
<b>ISIN code</b>	EE3100039496
<b>Ticker symbol</b>	NCN1T
<b>Nominal value</b>	No par value*
<b>Total number of securities issued</b>	30,756,728
<b>Number of listed securities</b>	30,756,728
<b>Listing date</b>	18 May 2006
<b>Market</b>	NASDAQ OMX Tallinn, Baltic Main List
<b>Industry</b>	Construction and engineering
<b>Indexes</b>	OMX_Baltic_Benchmark_Cap_GI; OMX_Baltic_Benchmark_Cap_PI OMX_Baltic_Benchmark_GI; OMX_Baltic_Benchmark_PI; OMX_Baltic_GI OMX_Baltic_PI; OMX Tallinn_GI; OMX_Baltic_Industrials_GI; OMX_Baltic_Industrials_PI

\* In connection with Estonia's accession to the euro-zone on 1 January 2011 and in line with amendments to the Estonian Commercial Code that took effect on 1 July 2010 as well as a resolution adopted by the annual general meeting of Nordecon AS in May 2011, the company's share capital was converted from 307,567,280 Estonian kroons to 19,657,131.9 euros. Concurrently with the conversion, the company adopted shares without par value. The share capital of Nordecon AS now consists of 30,756,728 ordinary registered shares with no par value.

Owners of ordinary shares are entitled to dividends as distributed from time to time. Each share carries one vote at the general meeting of Nordecon AS.

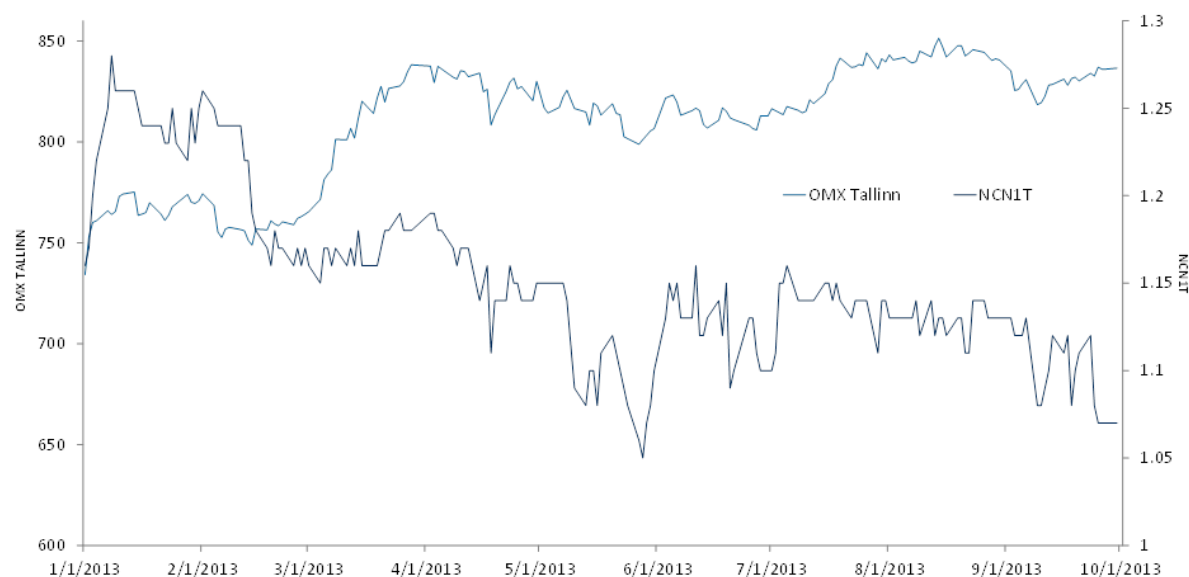
### Movements in the price and turnover of the Nordecon AS share in the first nine months of 2013

Movements in share price are in euros / daily turnover in the bar chart is in thousands of euros





## Movement of the share price compared with the OMX Tallinn index in the first nine months of 2013



Index/equity	1 January 2013*	30 September 2013	+/-, %
■ OMX Tallinn	734.20	836.51	+13.93
■ NCN1T	1.16	1.07	-7.76

\* Closing price on the NASDAQ OMX Tallinn Stock Exchange at 31 December 2012

## Summarised trading results

### Share trading history (EUR)

Price	9M 2013	9M 2012	9M 2011
Open	1.17	0.92	1.38
High	1.29	1.26	1.50
Low	1.00	0.88	0.88
Last closing price	1.07	1.19	0.98
Traded volume (number of securities traded)	2,108,144	3,014,331	3,430,730
Turnover, millions	2.46	3.29	4.38
Listed volume (30 September), thousands	30,757	30,757	30,757
Market capitalisation (30 September), millions	32.91	36.60	30.14

## Shareholder structure

### Largest shareholders of Nordecon AS at 30 September 2013

Shareholder	Number of shares	Ownership interest (%)
AS Nordic Contractors	16,507,464	53.67
Lüksusjaht AS	2,935,730	9.55
ING Luxembourg S.A.	2,007,949	6.53
Skandinaviska Enskilda Banken AB, Swedish Clients	661,308	2.15
SEB Pank AS clients	650,000	2.11
State Street Bank and Trust Omnibus Account A Fund	597,464	1.94
Ain Tromp	578,960	1.88
ASM Investments OÜ	519,600	1.69
SEB Elu- ja pensionikindlustus AS	262,700	0.85
Skandinaviska Enskilda Banken Finnish Clients	257,410	0.84



### Shareholder structure of Nordecon AS by ownership interest at 30 September 2013

	Number of shareholders	Ownership interest (%)
Shareholders with interest exceeding 5%	3	69.74
Shareholders with interest between 1% and 5%	5	9.78
Shareholders with interest below 1%	1,875	20.48
<b>Total</b>	<b>1,883</b>	<b>100</b>

### Shares controlled by members of the council of Nordecon AS at 30 September 2013

Council member		Number of shares	Ownership interest (%)
Toomas Luman (AS Nordic Contractors, OÜ Luman ja Pojad)*	Chairman of the Council	16,579,144	53.90
Ain Tromp	Member of the Council	578,960	1.88
Alar Kroodo (ASM Investments OÜ)*	Member of the Council	519,600	1.69
Andri Hõbemägi	Member of the Council	50,000	0.16
Tiina Mõis	Member of the Council	0	0.00
Meelis Milder	Member of the Council	0	0.00
<b>Total</b>		<b>17,727,704</b>	<b>57.64</b>

\* Companies controlled by the individual

On 19 June 2013 OÜ Luman ja Pojad, a company controlled by the chairman of the council, acquired an additional 5,000 shares in Nordecon AS.

### Shares controlled by members of the board of Nordecon AS at 30 September 2013

Board member		Number of shares	Ownership interest (%)
Jaano Vink (OÜ Brandhouse)*	Chairman of the Board	37,921	0.12
Avo Ambur	Member of the Board	32,322	0.11
Erkki Suurorg	Member of the Board	0	0.00
<b>Total</b>		<b>70,243</b>	<b>0.23</b>

\* Companies controlled by the individual

Members of the board and council of Nordecon AS and companies controlled by them have not been granted any share options under which they could acquire shares in Nordecon AS in a subsequent period.



## Description of the main risks

### Business risks

The main factors, which affect the Group's business volumes and profit margins, are competition in the construction market and changes in the demand for construction services.

In 2013, competition for public sector contracts has intensified. The volume of public sector investments has decreased and the prospects of maintaining current operating volumes in 2014 are not good. Strong competitive pressure is driving bid prices down although input prices seem to be rising. Competition is particularly fierce in the building construction segment. We acknowledge the risks inherent in the execution of contracts concluded in an environment of stiff competition. Securing a long-term construction contract at an unreasonably low price in a situation where input prices tend to rise involves a high risk, because the contract may quickly start generating a loss. Thus, in price-setting we currently prioritize profitability over increasing or maintaining the revenue figures.

In the next periods, demand for construction services will be driven by public sector investments, which in recent years have mostly been made with the assistance of EU support. Present allocations from the EU structural funds are linked, both in terms of size and timing, to the current EU financial framework (2007-2013). The funds left for the last year of the budget period are smaller than earlier, which means that in 2013 fewer new projects have been started. In general, the amounts that will be allocated to Estonia during the next EU financial framework (2014-2020) are known but the volume and timeframe of investments involving construction work have not yet been approved. According to the latest information, the overall volume of construction-related investments is expected to decline and 2014 may become a so-called 'gap' year between the two budget periods, where most efforts will be directed at preparatory administrative activities required for enabling the investments.

In light of the above, it is likely that in 2014 the Group's business volumes will shrink, particularly in the Infrastructure segment where the proportion of public sector investments has been the largest. Our action plan foresees redirecting our resources (including some of the labour of the Infrastructure segment) to increasing the proportion of contracts secured from the private sector. According to its business model, Nordecon operates in all segments of the construction market. Therefore, we are somewhat better positioned than those companies that operate in one specific (particularly infrastructure) segment.

Our primary goal is to maintain profitability even when construction volumes shrink. In many functions (e.g. support services), our costs have increased considerably more slowly than the volumes of our operating activities. Essentially, our costs are at the levels where they were taken by various cost cuts after the last major downturn in the construction market, which was in 2009-2010. This means that if construction volumes change, we will not have to undertake any extensive restructuring.

The Group's operations are also influenced by the change of seasons. The impacts of seasonality are the strongest in the Infrastructure segment where a lot of work is done outdoors (road and port construction, earthwork, etc). To disperse the risk, we secure road maintenance contracts that generate year-round business. According to our business strategy, we counteract seasonal fluctuations in infrastructure operations with building construction operations that are less exposed to seasonality. Thus, the Group endeavours to keep the two segments in balance (see also the chapter *Performance by business line* in the directors' report). In addition, our companies consistently seek new technical solutions that would yield greater efficiency under changeable weather conditions.

### Operational risks

To manage their daily construction risks, Group companies purchase contractors' all risks insurance. Depending on the nature of the project and the requests of the customer, both general frame agreements and special, project-specific contracts are used. In addition, as a rule, subcontractors are required to secure performance of their obligations with a bank guarantee provided to a Group company or the Group retains part of the amount payable until the completion of the contract. To remedy builder-caused deficiencies, which may be detected during the warranty period, Group companies create warranty provisions based on their historical experience. At 30 September 2013, the Group's warranties provisions (including current and non-current ones) totalled 998 thousand euros. At 30 September 2012, the corresponding figure was 1,092 thousand euros.

In addition to managing risks directly related to construction operations, in recent years we have sought to mitigate the risks inherent in preliminary activities. In particular, we have focused on the bidding process, i.e. compliance with the procurement terms and conditions, and budgeting. The errors made in the planning stage are usually irreversible and, in a situation where the price is contractually fixed, may result in a direct financial loss.





## Financial risks

### Credit risk

In the reporting period, the Group did not recognise any significant credit losses. The credit risk exposure of the Group's receivables continued to be low because the proportion of public sector customers that receive their financing from the state and local governments as well as the EU structural funds continued to be high. The main indicator of the realisation of credit risk is settlement default that exceeds 180 days coupled with no activity on the part of the debtor that would confirm the intent to settle.

In the first nine months of 2013, impairment losses on receivables totalled 261 thousand euros (9M 2012: 233 thousand euros).

The Group's statement of financial position includes a trade receivable of approximately 2.4 million euros (includes a portion of late payment interest) due from the customer of the exhibition building of the Estonian Maritime Museum. Under the contract, determination of whether the Group's claim against the debtor has merit is at the discretion of the Arbitration Court of the Estonian Chamber of Commerce and Industry. The Group's management is convinced that the claim has merit and has therefore not written the receivable down. By the date of release of this report, hearings have been held and the parties have to submit their final opinions to the court. The court is expected to rule upon the matter in January 2014.

### Liquidity risk

The Group remains exposed to higher than average liquidity risk resulting from a mismatch between the long settlement terms demanded by customers (mostly 45 to 56 days but sometimes up to 100 days) and increasingly shorter settlement terms negotiated by subcontractors (mostly 21 to 45 days). The Group counteracts the differences in settlement terms by using factoring where possible.

At the reporting date, the Group's current assets exceeded its current liabilities 1.12-fold (30 September 2012: 1.08-fold). Interest-bearing liabilities account for a significant proportion of current liabilities. In accordance with IFRS EU, loan commitments have to be classified into current and non-current liabilities based on the contractual conditions effective at the reporting date. To date, banks have refinanced the Group's liabilities for periods not exceeding 12 months, which is why a substantial portion of loans are classified as current liabilities although it is probable that some borrowings (particularly overdraft facilities) will be refinanced again when the 12 months have passed. In the first nine months of 2013, the Group refinanced loans of 13,415 thousand euros which at 31 December 2012 were recognised as current liabilities (at 30 September 2013 relevant loan balances totalled 15,322 thousand euros) and deferred their maturities to 2014.

At the reporting date, the Group's cash and cash equivalents totalled 9,140 thousand euros (30 September 2012: 9,066 thousand euros).

### Interest rate risk

The Group's interest-bearing liabilities to banks have both fixed and floating interest rates. Finance lease liabilities have mainly floating interest rates. The base rate for most floating-rate contracts is Euribor. At 30 September 2013, the Group's interest-bearing loans and borrowings totalled 42,528 thousand euros, an increase of 5,937 thousand euros year over year. Growth in factoring liabilities accounted for 5,096 thousand euros of the overall rise in loans and borrowings. Interest expense for the first nine months of 2013 amounted to 783 thousand euros, 16 thousand euros down from a year ago. The Group's interest rate risk results mainly from a rise in the base rate for floating interest rates (Euribor/EONIA). The risk is mitigated by fixing, where possible, the interest rates of liabilities during the period of low market interest rates.

The Group has not acquired any derivatives to hedge the risks arising from instruments with a floating interest rate.

### Currency risk

As a rule, the prices of construction contracts and subcontracts are fixed in the currency of the host country, i.e. in euros (EUR) and in Ukrainian hryvnas (UAH). In the first nine months of 2013, the exchange rate of the Ukrainian hryvna against the euro was stable. The Group's net foreign exchange loss for the period was 43 thousand euros (9M 2012: a net foreign exchange loss of 8 thousand euros).

The Group has not acquired any derivatives to hedge its currency risks.



## Outlooks of the Group's geographical markets

### Estonia

#### Processes and developments characterising the Estonian construction market

- In 2013 construction volumes in the infrastructure segment are still larger but the segment's lead over building construction is diminishing. The public sector is contributing to building construction through two major projects – the construction of a new main building for the Estonian National Museum and the Maarjamõisa medical campus of Tartu University Hospital. The turnover of the infrastructure segment is undermined by the depletion of funds allocated from the EU budget for the period 2007-2013. The private sector is investing mainly in building construction. The rise in private sector investments should continue in 2014.
- The construction market continues to be disproportionately reliant on public procurement and projects executed with the support of the EU structural funds. In the last year of the current EU budget period, the volume of new procurements has decreased. The volumes and timing of projects to be executed using the support of the next EU financial framework (2014-2020) are still unclear. The volumes of new investments made by two large public sector customers, Riigi Kinnisvara AS (a state-owned real estate company) and the National Road Administration, are going to decline. It is more likely than not that this year growth of the Estonian construction market is going to decelerate and next year the market may see certain shrinkage.
- The industry will see further consolidation, particularly in the field of general contracting in building construction where the number of medium-sized operators (annual turnover of around 15-40 million euros) is still too large, but the process will be slower than expected. Based on the past three years' experience it is likely that stiff competition and insufficient demand will induce some general contractors to go slowly out of business or shrink in size rather than merge with another or exit the market. However, it is also becoming increasingly common that two to four smaller players that are seeking ways to remain in business will form a consortium to bid for major procurement contracts, meet tendering terms and secure the required funding.
- Competition is increasing in all segments of the construction market. The average number of bidders for a contract has increased and there is already a notable gap between the lowest bids made by the winners and the average bids. The situation is somewhat similar to 2009 when anticipation of a fall in demand caused a rapid decline in construction prices, which triggered a slide in the prices of many construction inputs. However, currently there are no massive decreases in input prices and companies that are banking on this in the bidding phase may run into difficulty. Construction prices and thus also profit margins are already under strong competitive pressure.
- In new housing development, the success of a project depends on the developer's ability to control the input prices included in its business plan and thus to set an affordable sales price. Although the overall situation is improving steadily, the offering of new residential real estate cannot be increased dramatically because the prices of new apartments are relatively high compared with the standard of living and the banks' lending terms remain strict. Similarly to the previous year, successful projects include those that create or fill a niche.
- The contracts signed with public sector customers continue to impose tough conditions on construction companies: extensive obligations, strict sanctions, various financial guarantees, extremely long settlement terms, etc. Contractors cannot implement more optimal solutions identified in the construction phase that would reduce the construction or operating costs of the asset without sanctions because procurement terms do not allow this. In a situation where public procurement is based on underbidding, the above factors increase the risks of all market participants. Still, compared to two or three years ago, the situation has improved and in some respects procurement terms have become more reasonable for construction companies.
- The prices of construction inputs will remain relatively stable. Local subcontracting prices may decrease due to weakening demand but, taking into account the subcontractors' financial and human resources, the decline cannot be substantial or long-lasting. In some areas, price fluctuations are unpredictable and, thus, notably greater and hard or even impossible to influence (oil and metal products, certain materials and equipment).
- There is a shortage of high-quality labour (including project and site managers). Shrinkage in construction volumes in Estonia may increase labour supply but not substantially. Labour migration to the Nordic countries will remain steady and although those markets (particularly Finland) may also shrink, the number of job seekers that will return will not increase considerably. Accordingly, the basic wage of construction-sector employees will not decrease. Instead, the rise in the cost of living is creating pressure for a wage increase.



## Latvia and Lithuania

In our opinion, the Latvian construction market, which was hit by a severe downturn a few years ago, has not regained sufficient stability and similarly to Estonia in 2013 it will probably see shrinkage in public sector demand. Therefore, the Group is not going to enter to the Latvian construction market permanently in 2013.

In the next few years we may undertake some projects in Latvia through our Estonian entities, involving partners where necessary. Execution of project-based business assumes that the projects can be performed profitably. The decision does not change our strategy for the future, i.e. the objective of operating in our neighbouring construction markets through local subsidiaries.

The operations of our Lithuanian subsidiary, Nordecon Statyba UAB, have been suspended. We are monitoring market developments and may resume our Lithuanian operations on a project basis. Temporary suspension of operations does not cause any major costs for the Group and does not change our strategy for the future, i.e. the objective of operating in the Lithuanian construction market through local subsidiaries.

## Ukraine

The Group operates in Ukraine as a general contractor and project manager in the segment of commercial buildings and production facilities, offering its services primarily to foreign private sector customers. In the past three years, there have been practically no private sector customers in that segment. Regardless of this, we will continue our business in Ukraine in 2013. There are some signs that investment activity in Ukraine will recover in 2013 to a certain extent although the economic and political risks do not allow us to expect any rapid changes. We continue to monitor the situation in the Ukrainian construction market closely and will restructure our operations as appropriate. We also continue to seek opportunities for exiting our two conserved real estate projects or signing a construction contract with a potential new owner.

## Finland

In the Finnish market, we offer mainly subcontracting services in the field of concrete works but based on experience gained, we are going to deliver some more complex services in 2013. The local concrete works market provides opportunities for competing for projects where the customer wishes to purchase all concrete works from one reliable partner. Nevertheless, we will maintain a rational approach and will avoid taking excessive risks. We are not planning to penetrate any other segments of the Finnish construction market (general contracting, project management, etc).

## Management's confirmation and signatures

**The board confirms that the directors' report presents fairly all significant events that occurred during the reporting period as well as their impact on the condensed consolidated interim financial statements, contains a description of the main risks and uncertainties, and provides an overview of all significant transactions with related parties.**

Jaano Vink	Chairman of the Board		7 November 2013
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Avo Ambur	Member of the Board		7 November 2013
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Erkki Suurorg	Member of the Board		7 November 2013
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## Condensed consolidated interim financial statements

### Condensed consolidated interim statement of financial position

EUR '000	Note	30 September 2013	31 December 2012
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents		9,140	10,231
Trade and other receivables	2	66,876	42,896
Prepayments		1,723	1,840
Inventories	3	23,932	26,243
<b>Total current assets</b>		<b>101,671</b>	<b>81,210</b>
<b>Non-current assets</b>			
Investments in equity-accounted investees		667	202
Other investments		26	26
Trade and other receivables	2	380	1,554
Investment property		4,930	4,930
Property, plant and equipment	4	9,196	8,851
Intangible assets	4	14,848	14,857
<b>Total non-current assets</b>		<b>30,047</b>	<b>30,420</b>
<b>TOTAL ASSETS</b>		<b>131,718</b>	<b>111,630</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Loans and borrowings	5, 6	38,618	27,185
Trade payables		40,435	31,968
Other payables		6,047	5,014
Deferred income		5,523	11,404
Provisions		279	521
<b>Total current liabilities</b>		<b>90,902</b>	<b>76,092</b>
<b>Non-current liabilities</b>			
Loans and borrowings	5, 6	3,911	3,671
Trade payables		259	259
Other payables		96	96
Provisions		1,011	1,210
<b>Total non-current liabilities</b>		<b>5,277</b>	<b>5,236</b>
<b>TOTAL LIABILITIES</b>		<b>96,179</b>	<b>81,328</b>
<b>EQUITY</b>			
Share capital		19,657	19,657
Statutory capital reserve		2,554	2,554
Translation reserve		-355	-404
Retained earnings		11,176	6,039
<b>Total equity attributable to owners of the parent</b>		<b>33,032</b>	<b>27,846</b>
<b>Non-controlling interests</b>		<b>2,507</b>	<b>2,456</b>
<b>TOTAL EQUITY</b>		<b>35,539</b>	<b>30,302</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>131,718</b>	<b>111,630</b>



## Condensed consolidated interim statement of comprehensive income

EUR '000	Note	Q3 2013	Q3 2012	9M 2013	9M 2012	2012
Revenue	8, 9	59,236	54,134	134,733	117,054	159,422
Cost of sales	10	-53,083	-50,296	-125,307	-111,028	-151,205
<b>Gross profit</b>		<b>6,153</b>	<b>3,838</b>	<b>9,426</b>	<b>6,026</b>	<b>8,217</b>
Marketing and distribution expenses		-142	-63	-281	-253	-389
Administrative expenses	11	-1,240	-1,437	-3,567	-3,941	-5,385
Other operating income	12	154	254	360	620	810
Other operating expenses	12	-292	-289	-351	-346	-566
<b>Operating profit</b>		<b>4,633</b>	<b>2,303</b>	<b>5,587</b>	<b>2,106</b>	<b>2,687</b>
Finance income	13	124	118	507	459	622
Finance costs	13	-329	-133	-887	-672	-1,248
<b>Net finance costs</b>		<b>-205</b>	<b>-15</b>	<b>-380</b>	<b>-213</b>	<b>-626</b>
Share of profit/loss of equity-accounted investees		120	90	197	139	-79
<b>Profit before income tax</b>		<b>4,548</b>	<b>2,378</b>	<b>5,404</b>	<b>2,032</b>	<b>1,982</b>
Income tax expense		-51	0	-95	-44	-56
<b>Profit for the period</b>		<b>4,497</b>	<b>2,378</b>	<b>5,309</b>	<b>1,988</b>	<b>1,926</b>
<b>Other comprehensive income:</b>						
Exchange differences on translating foreign operations		82	55	49	2	59
<b>Total other comprehensive income for the period</b>		<b>82</b>	<b>55</b>	<b>49</b>	<b>2</b>	<b>59</b>
<b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD</b>		<b>4,579</b>	<b>2,433</b>	<b>5,358</b>	<b>1,990</b>	<b>1,985</b>
<b>Profit attributable to:</b>						
- Owners of the parent		4,409	2,121	5,137	1,630	1,477
- Non-controlling interests		88	257	172	358	449
<b>Profit for the period</b>		<b>4,497</b>	<b>2,378</b>	<b>5,309</b>	<b>1,988</b>	<b>1,926</b>
<b>Total comprehensive income attributable to:</b>						
- Owners of the parent		4,491	2,176	5,186	1,632	1,536
- Non-controlling interests		88	257	172	358	449
<b>Total comprehensive income</b>		<b>4,579</b>	<b>2,433</b>	<b>5,358</b>	<b>1,990</b>	<b>1,985</b>
<b>Earnings per share attributable to owners of the parent:</b>						
Basic earnings per share (EUR)	7	0.14	0.07	0.17	0.05	0.05
Diluted earnings per share (EUR)	7	0.14	0.07	0.17	0.05	0.05



## Condensed consolidated interim statement of cash flows

EUR '000	Note	9M 2013	9M 2012
<b>Cash flows from operating activities</b>			
Cash receipts from customers <sup>1</sup>		136,517	131,577
Cash paid to suppliers <sup>2</sup>		-125,826	-113,048
VAT paid		-2,419	-4,500
Cash paid to and for employees		-13,403	-12,212
Income tax paid		-2	-55
<b>Net cash used in/from operating activities</b>		<b>-5,133</b>	<b>1,762</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment		-315	-1,758
Proceeds from sale of property, plant and equipment and intangible assets	4	191	363
Acquisition of associates		-350	0
Loans provided		-377	-1,007
Repayment of loans provided		202	94
Dividends received		4	0
Interest received		359	0
<b>Net cash used in investing activities</b>		<b>-286</b>	<b>-2,308</b>
<b>Cash flows from financing activities</b>			
Proceeds from loans received		10,243	4,329
Repayment of loans received		-3,760	-2,146
Dividends paid		-107	-80
Payment of finance lease liabilities		-1,310	-1,542
Interest paid		-736	-859
<b>Net cash from/used in financing activities</b>		<b>4,330</b>	<b>-298</b>
<b>Net cash flow</b>		<b>-1,089</b>	<b>-844</b>
<b>Cash and cash equivalents at beginning of period</b>		<b>10,231</b>	<b>9,908</b>
Effect of exchange rate fluctuations on cash and cash equivalents		-2	2
Decrease in cash and cash equivalents		-1,089	-844
<b>Cash and cash equivalents at end of period</b>		<b>9,140</b>	<b>9,066</b>

<sup>1</sup> Line item *Cash receipts from customers* includes VAT paid by customers.

<sup>2</sup> Line item *Cash paid to suppliers* includes VAT paid.



## Condensed consolidated interim statement of changes in equity

EUR '000	Equity attributable to owners of the parent					Non-controlling interests	Total
	Share capital	Statutory capital reserve	Translation reserve	Retained earnings	Total		
<b>Balance at 31 December 2011</b>	<b>19,657</b>	<b>2,554</b>	<b>-463</b>	<b>4,563</b>	<b>26,311</b>	<b>2,086</b>	<b>28,397</b>
Profit for the period	0	0	0	1,630	1,630	358	1,988
Other comprehensive income	0	0	2	0	2	0	2
Dividends paid	0	0	0	0	0	-80	-80
<b>Balance at 30 September 2012</b>	<b>19,657</b>	<b>2,554</b>	<b>-461</b>	<b>6,193</b>	<b>27,943</b>	<b>2,364</b>	<b>30,307</b>
<b>Balance at 31 December 2012</b>	<b>19,657</b>	<b>2,554</b>	<b>-404</b>	<b>6,039</b>	<b>27,846</b>	<b>2,456</b>	<b>30,302</b>
Profit for the period	0	0	0	5,137	5,137	172	5,309
Other comprehensive income	0	0	49	0	49	0	49
Dividends paid	0	0	0	0	0	-121	-121
<b>Balance at 30 September 2013</b>	<b>19,657</b>	<b>2,554</b>	<b>-355</b>	<b>11,176</b>	<b>33,032</b>	<b>2,507</b>	<b>35,539</b>



## Notes to the condensed consolidated interim financial statements

### NOTE 1. Significant accounting policies

Nordecon AS is a company incorporated and domiciled in Estonia. The address of the company's registered office is Pärnu mnt 158/1, Tallinn 11317, Estonia. The company's ultimate controlling shareholder is AS Nordic Contractors that holds 53.67% of the shares in Nordecon AS. The Nordecon AS shares have been listed on the NASDAQ OMX Tallinn Stock Exchange since 18 May 2006.

The condensed consolidated interim financial statements as at and for the period ended 30 September 2013 have been prepared in accordance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting* as adopted by the European Union. The condensed interim financial statements do not contain all the information presented in the annual financial statements and should be read in conjunction with the Group's latest published annual financial statements as at and for the year ended 31 December 2012.

The Group has not changed its significant accounting policies compared with the consolidated financial statements as at and for the year ended 31 December 2012. The effect of any new and revised standards that have taken effect is described in this note.

According to management's assessment, the condensed consolidated interim financial statements of Nordecon AS for the third quarter and first nine months of 2013 give a true and fair view of the Group's financial performance and the parent and all its subsidiaries that are included in these financial statements are going concerns. The condensed consolidated interim financial statements have not been audited or otherwise checked by auditors and they contain only the consolidated financial statements of the Group.

### NOTE 2. Trade and other receivables

EUR '000

Current portion	Note	30 September 2013	31 December 2012
Trade receivables		36,082	20,408
Retentions receivable		6,002	4,479
Receivables from related parties		98	1,016
Loans to related parties	14	11,981	10,474
Miscellaneous receivables		1,107	1,014
<b>Total receivables and loans provided</b>		<b>55,270</b>	<b>37,391</b>
Due from customers for contract work		11,606	5,505
<b>Total trade and other receivables</b>		<b>66,876</b>	<b>42,896</b>

EUR '000

Non-current portion	Note	30 September 2013	31 December 2012
Loans to related parties	14	0	1,168
Miscellaneous receivables		380	386
<b>Total trade and other receivables</b>		<b>380</b>	<b>1,554</b>

### NOTE 3. Inventories

EUR '000

	30 September 2013	31 December 2012
Raw materials and consumables	4,436	3,524
Work in progress	5,402	7,374
Goods for resale and properties purchased for development	13,216	13,741
Finished goods	878	1,604
<b>Total inventories</b>	<b>23,932</b>	<b>26,243</b>





## NOTE 4. Property, plant and equipment and intangible assets

### Property, plant and equipment

The period's additions to property, plant and equipment totalled 1,799 thousand euros and mainly consisted of equipment and construction machinery acquired for the Group's operating activities.

Proceeds from the sale of property, plant and equipment totalled 191 thousand euros (see the statement of cash flows) and sales gain on the transactions amounted to 204 thousand euros (see note 12).

### Intangible assets

In the first nine months of 2013, the Group did not conduct any significant transactions with intangible assets. The carrying amount of intangible assets decreased compared with 31 December 2012 mostly through amortisation.

## NOTE 5. Finance and operating leases

EUR '000	30 September 2013	31 December 2012
<b>Finance lease liabilities at end of reporting period</b>	<b>4,000</b>	<b>3,736</b>
Of which payable in less than 1 year	1,104	1,269
Of which payable between 1 and 5 years	2,896	2,467
Base currency EUR	4,000	3,736
Interest rates of contracts denominated in EUR*	2.0%-6.0%	2.0%-6.0%
Periodicity of payments	Monthly	Monthly

\* Including leases with floating interest rates

Finance lease payments made	9M 2013	9M 2012
Principal payments made during the period	1,310	1,542
Interest payments made during the period	110	67

Operating lease payments made	9M 2013	9M 2012
Payments made for cars	490	486
Payments made for construction equipment	1,383	1,116
Payments made for premises	447	486
Payments made for software	201	278
<b>Total operating lease payments made</b>	<b>2,521</b>	<b>2,366</b>

## NOTE 6. Loans and borrowings

### Short-term loans and borrowings

EUR '000	Note	30 September 2013	31 December 2012
Current portion of long-term loans		8,351	11,593
Current portion of finance lease liabilities	5	1,104	1,269
Short-term bank loans		16,655	7,463
Factoring liabilities		12,508	6,860
<b>Total short-term loans and borrowings</b>		<b>38,618</b>	<b>27,185</b>

### Long-term loans and borrowings

EUR '000	Note	30 September 2013	31 December 2012
Long-term bank loans		174	220
Finance lease liabilities	5	2,896	2,467
Other long-term loans		841	984
<b>Total long-term loans and borrowings</b>		<b>3,911</b>	<b>3,671</b>

In the first nine months of 2013, the Group refinanced loans of 13,415 thousand euros which at 31 December 2012 were recognised as current liabilities (at 30 September 2013 relevant loan balances totalled 15,322 thousand euros) and deferred their maturities to 2014.



## NOTE 7. Earnings per share

Basic earnings per share are calculated by dividing the profit attributable to owners of the parent by the weighted average number of shares outstanding during the period. Diluted earnings per share are calculated by dividing the profit attributable to owners of the parent by the weighted average number of shares outstanding during the period, both adjusted for the effects of all dilutive equity instruments.

EUR '000	9M 2013	9M 2012
Profit for the period attributable to owners of the parent	5,137	1,630
Weighted average number of shares (in thousands)	30,757	30,757
Basic earnings per share (EUR)	0.17	0.05
Diluted earnings per share (EUR)	0.17	0.05

Nordecon AS has not issued any share options or other convertible instruments. Therefore, diluted earnings per share equal basic earnings per share.

## NOTE 8. Segment reporting – operating segments

The Group's chief operating decision maker is the board of the parent company Nordecon AS. The board monitors the Group's internally generated financial information on a regular basis to better allocate the resources and assess their utilisation. Reportable operating segments are identified by reference to monitored information.

The operating segments monitored by the chief operating decision maker include both a business and a geographical dimension. The Group's reportable operating segments are:

- Buildings (European Union)
- Buildings (Ukraine)
- Infrastructure (European Union)

As from 2013, the Buildings segment does not include the figures for Belarus because the company that operated in Belarus was liquidated in 2012.

Other segments comprise insignificant operating segments whose results are not reviewed by the chief operating decision maker on the basis of internally generated financial information.

### Preparation of segment reporting

The prices applied in inter-segment transactions do not differ significantly from market prices. The chief operating decision maker reviews inter-segment transactions separately and analyses their proportion in segment revenue. Respective figures are separately outlined on preparing segment reporting.

The chief operating decision maker assesses the performance of an operating segment and the utilisation of the resources allocated to it through the profit generated by the segment. The profit of an operating segment is its gross profit that does not include any major exceptional expenditures (such as non-recurring asset write-downs). The expenses after the gross profit of an operating segment (including marketing and distribution and administrative expenses, interest expense, income tax expense) are not used by the chief operating decision maker to assess the performance of the segment on the basis of internally generated financial information.

## 9 months

EUR '000	Buildings	Buildings	Infrastructure	Other	Total
9M 2013	EU	UKR	EU	segments	
Total revenue	52,202	139	79,992	3,366	135,699
Inter-segment revenue	0	-47	-405	-1,600	-2,052
<b>Revenue from external customers</b>	<b>52,202</b>	<b>92</b>	<b>79,587</b>	<b>1,766</b>	<b>133,647</b>
<b>Gross profit of the segment</b>	<b>3,926</b>	<b>37</b>	<b>5,644</b>	<b>420</b>	<b>10,027</b>



EUR '000 9M 2012	Buildings EU	Buildings UKR	Infrastructure EU	Other segments	Total
Total revenue	49,753	332	64,696	3,093	117,874
Inter-segment revenue	-64	-274	-22	-1,633	-1,993
<b>Revenue from external customers</b>	<b>49,689</b>	<b>58</b>	<b>64,674</b>	<b>1,460</b>	<b>115,881</b>
<b>Gross profit of the segment</b>	<b>3,639</b>	<b>-110</b>	<b>2,895</b>	<b>245</b>	<b>6,669</b>

### Third quarter

EUR '000 Q3 2013	Buildings EU	Buildings UKR	Infrastructure EU	Other segments	Total
Total revenue	21,409	89	36,988	1,306	59,792
Inter-segment revenue	0	0	-396	-579	-975
<b>Revenue from external customers</b>	<b>21,409</b>	<b>89</b>	<b>36,592</b>	<b>727</b>	<b>58,817</b>
<b>Gross profit of the segment</b>	<b>1,591</b>	<b>4</b>	<b>4,490</b>	<b>289</b>	<b>6,374</b>

EUR '000 Q3 2012	Buildings EU	Buildings UKR	Infrastructure EU	Other segments	Total
Total revenue	21,451	172	31,907	1,491	55,021
Inter-segment revenue	-64	-172	-2	-928	-1,166
<b>Revenue from external customers</b>	<b>21,387</b>	<b>0</b>	<b>31,905</b>	<b>563</b>	<b>53,855</b>
<b>Gross profit of the segment</b>	<b>1,685</b>	<b>-35</b>	<b>2,173</b>	<b>259</b>	<b>4,082</b>

### Reconciliation of segment revenues

EUR '000	9M 2013	Q3 2013	9M 2012	Q3 2012
Total revenues for reportable segments	132,333	58,486	114,781	53,530
Revenue for other segments	3,366	1,306	3,093	1,491
Elimination of inter-segment revenues	-2,052	-975	-1,993	-1,166
Unallocated revenue	1,086	419	1,173	279
<b>Total consolidated revenue</b>	<b>134,733</b>	<b>59,236</b>	<b>117,054</b>	<b>54,134</b>

### Reconciliation of segment profit

EUR '000	9M 2013	Q3 2013	9M 2012	Q3 2012
Total profit for reportable segments	9,607	6,085	6,424	3,823
Total profit for other segments	420	289	245	259
Elimination of inter-segment profits and losses	-7	2	-14	22
Unallocated profits and losses	-594	-223	-629	-266
<b>Consolidated gross profit</b>	<b>9,426</b>	<b>6,153</b>	<b>6,026</b>	<b>3,838</b>
Unallocated expenses:				
Marketing and distribution expenses	-281	-142	-253	-63
Administrative expenses	-3,567	-1,240	-3,941	-1,437
Other operating income and expenses	9	-138	274	-35
<b>Consolidated operating profit</b>	<b>5,587</b>	<b>4,633</b>	<b>2,106</b>	<b>2,303</b>
Finance income	507	124	459	118
Finance costs	-887	-329	-672	-133
Share of profit of equity-accounted investees	197	120	139	90
<b>Consolidated profit before tax</b>	<b>5,404</b>	<b>4,548</b>	<b>2,032</b>	<b>2,378</b>



## NOTE 9. Segment reporting – geographical information

EUR '000	9M 2013	Q3 2013	9M 2012	Q3 2012
Estonia	131,578	57,530	115,770	53,544
Ukraine	139	89	324	172
Belarus	0	0	8	0
Finland	3,066	1,618	1,296	660
Inter-segment eliminations	-50	-1	-344	-242
<b>Total revenue</b>	<b>134,733</b>	<b>59,236</b>	<b>117,054</b>	<b>54,134</b>

## NOTE 10. Cost of sales

EUR '000	9M 2013	9M 2012
Cost of materials, goods and services used	112,016	99,591
Personnel expenses	11,786	9,842
Depreciation and amortisation expense	1,379	1,444
Other expenses	126	151
<b>Total cost of sales</b>	<b>125,307</b>	<b>111,028</b>

## NOTE 11. Administrative expenses

EUR '000	9M 2013	9M 2012
Cost of materials, goods and services used	1,539	1,688
Personnel expenses	1,798	1,993
Depreciation and amortisation expense	122	185
Other expenses	108	75
<b>Total administrative expenses</b>	<b>3,567</b>	<b>3,941</b>

## NOTE 12. Other operating income and expenses

### Other operating income

EUR '000	9M 2013	9M 2012
Gain on sale of property, plant and equipment and intangible assets	204	518
Foreign exchange gain	0	4
Other income	156	98
<b>Total other operating income</b>	<b>360</b>	<b>620</b>

### Other operating expenses

EUR '000	9M 2013	9M 2012
Loss on disposal of property, plant and equipment and intangible assets	15	32
Foreign exchange loss	1	6
Net gain on recognition and reversal of impairment losses on receivables	261	233
Other expenses	74	75
<b>Total other operating expenses</b>	<b>351</b>	<b>346</b>

## NOTE 13. Finance income and costs

### Finance income

EUR '000	9M 2013	9M 2012
Interest income on loans	469	444
Foreign exchange gain	36	4
Other finance income	2	11
<b>Total finance income</b>	<b>507</b>	<b>459</b>



## Finance costs

EUR '000	9M 2013	9M 2012
Interest expense	783	799
Foreign exchange loss	79	9
Other finance costs	25	-136
<b>Total finance costs</b>	<b>887</b>	<b>672</b>

## NOTE 14. Transactions with related parties

The Group considers parties to be related if one controls the other or exerts significant influence on the other's operating decisions (assumes holding more than 20% of voting power). Related parties include:

- Nordecon AS's parent company AS Nordic Contractors and its shareholders;
- other companies of AS Nordic Contractors group;
- equity-accounted investees (associates and joint ventures) of Nordecon group;
- members of the board and council of Nordecon AS, their close family members and companies connected with them;
- individuals whose shareholding implies significant influence.

### Purchase and sales transactions conducted with related parties during the period

EUR '000	9M 2013		9M 2012	
Volume of transactions performed	Purchase	Sale	Purchase	Sale
AS Nordic Contractors	256	0	258	2
Companies of AS Nordic Contractors group	5	689	18	3,129
Equity-accounted investees	1,140	23	238	8
Companies connected with members of the council	40	0	57	0
<b>Total</b>	<b>1,441</b>	<b>712</b>	<b>571</b>	<b>3,139</b>

EUR '000	9M 2013		9M 2012	
Volume of transactions performed	Purchase	Sale	Purchase	Sale
Construction services	1,143	685	271	3,125
Lease and other services	298	27	300	14
<b>Total</b>	<b>1,441</b>	<b>712</b>	<b>571</b>	<b>3,139</b>

In the reporting period, the Group recognised interest income on loans to associates of 381 thousand euros (9M 2012: 361 thousand euros) and on loans to joint ventures of 84 thousand euros (9M 2012: 83 thousand euros).

### Receivables from and liabilities to related parties at period-end

EUR '000	30 September 2013		31 December 2012	
	Receivables	Liabilities	Receivables	Liabilities
AS Nordic Contractors	0	9	1	8
Companies of AS Nordic Contractors group	1	0	584	0
Associates - receivables	97	206	430	4
Associates – loans and interest	10,342	0	9,754	0
Joint ventures – loans and interest	1,639	0	1,889	0
<b>Total</b>	<b>12,079</b>	<b>215</b>	<b>12,658</b>	<b>12</b>

The service fees of the members of the council of Nordecon AS for the first nine months of 2013 amounted to 120 thousand euros and associated social security charges totalled 40 thousand euros (9M 2012: 132 thousand euros and 44 thousand euros respectively). The figures (also for 2012) include the provisions made in the third quarter for performance bonuses that may be paid based on the Group's result of operations.

The service fees of the members of the board of Nordecon AS amounted to 195 thousand euros and associated social security charges totalled 64 thousand euros (9M 2012: 291 thousand euros and 96 thousand euros respectively, including the remuneration of the member of the board that was removed on 30 April 2012). The figures (also for 2012) include the provisions made in the third quarter for performance bonuses that may be paid based on the Group's result of operations.



## NOTE 15. Contingent assets and liabilities

In its annual report for the year ended 31 December 2012 (note 37), Nordecon AS disclosed information according to which it was involved in a lawsuit with Aivar and Marika Noormets, non-controlling shareholders in Eurocon OÜ, in connection with its obligation to purchase their share in Eurocon OÜ after the financial results for 2009 had become clear. By the date of release of the annual report, Tallinn Circuit Court had issued a ruling by which it satisfied the claim filed by Aivar and Marika Noormets (538,520 euros plus late payment interest) for compensation of damages caused by Nordecon AS through failure to conclude a purchase and sale agreement for purchasing the share in Eurocon OÜ from Aivar and Marika Noormets after the signature of a relevant preliminary agreement. The court considered the price payable for the share equal to the damages caused to Aivar and Marika Noormets in connection with the non-conclusion of an agreement for the a purchase and sale of the share in Eurocon OÜ and ordered that Nordecon AS pay the claimed amount to Aivar and Marika Noormets. At the same time, the ruling of the Circuit Court, which outlined the obligation to compensate the damages caused, stated that in essence Aivar and Marika Noormets have the obligation to transfer their share in Eurocon OÜ to Nordecon AS and Nordecon AS may demand transfer of the share. Nordecon AS contested the ruling by filing an appeal to the Supreme Court but on 20 May 2013 the Supreme Court refused to accept the appeal in cassation. As a result, the ruling of the Circuit Court, which resolved the dispute regarding Nordecon AS's obligation to Aivar and Marika Noormets, entered into force.

It was established in the said litigation that the share in Eurocon OÜ for which Nordecon AS was ordered to pay to Aivar and Marika Noormets, had become practically worthless at the time when Aivar Noormets was responsible for managing and developing the entity's business. Since the conditions of the sale stated that the value of the share has to remain at least at the level of the minimum purchase price but Aivar and Marika Noormets do currently not have a share of such value (Aivar and Marika Noormets are unable to meet their obligation to Nordecon AS), Nordecon AS has filed a claim against Aivar and Marika Noormets that offsets Nordecon AS's pecuniary obligation to Aivar and Marika Noormets, which arose from the above ruling of the Circuit Court. Nordecon AS's claim and obligation stem from the same transaction. Accordingly, relevant items have been offset in the Group's financial statements. Nordecon AS's claim against Aivar and Marika Noormets and the enforceability of offsetting will be resolved through the pending lawsuit. In light of the duration of legal proceedings, the matter will probably not be ruled upon in the current year. Until the new dispute has been resolved, the ruling of the Circuit Court is not enforceable and it cannot be enforced if the actions brought by Nordecon AS are resolved in its favour.

From 30 June 2013 until the date of release of this interim report, there have been no developments in the above litigations.



## Statements and signatures

### Statement of management's responsibility

The board of Nordecon AS acknowledges its responsibility for the preparation of the Group's condensed consolidated interim financial statements for the third quarter and first nine months of 2013 and confirms that:

- the policies applied on the preparation of the consolidated interim financial statements comply with International Financial Reporting Standards as adopted by the European Union (IFRS EU);
- the consolidated interim financial statements, which have been prepared in accordance with effective financial reporting standards, give a true and fair view of the assets and liabilities, the financial position, the financial performance, and the cash flows of the Group consisting of the parent company and other consolidated entities.

Jaano Vink

Chairman of the Board

7 November 2013

Avo Ambur

Member of the Board

7 November 2013

Erkki Suurorg

Member of the Board

7 November 2013