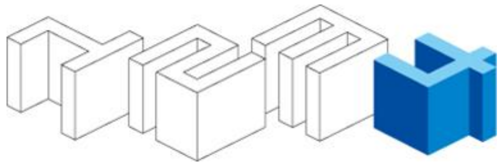
Financial report for the fourth quarter and twelve months of 2013 (unaudited)



Financial report for the fourth quarter and twelve months of 2013 (unaudited)

Business name	Nordecon AS
Registry number	10099962
Address	Pärnu mnt 158/1, 11317 Tallinn
Domicile	Republic of Estonia
Telephone	+ 372 615 4400
Fax	+ 372 615 4401
E-mail	nordecon@nordecon.com
Corporate website	www.nordecon.com
Core business activities	Construction of buildings Civil engineering Specialised construction activities Architectural and engineering activities
Financial year	1 January 2013 – 31 December 2013
Reporting period	1 January 2013 – 31 December 2013
Council	Toomas Luman (chairman of the council), Alar Kroodo, Andri Hõbemägi, Meelis Milder, Tiina Mõis, Ain Tromp
Board	Jaano Vink (chairman of the board), Avo Ambur, Erkki Suurorg
Auditor	KPMG Baltics OÜ

Contents

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

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 until the end of 2013 when tensions flared up. On the whole, the circumstances did not allow us to grow our Ukrainian business significantly. However, the number of bids requested for new construction projects increased somewhat and our operations grew to a certain extent.

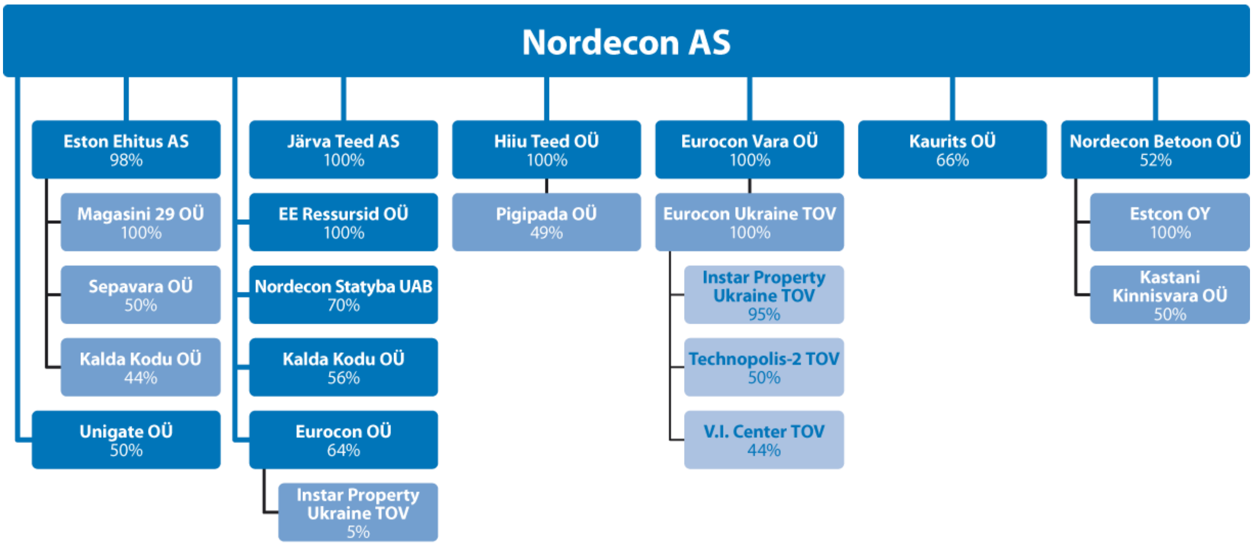
Real estate development projects that require extensive investment (we have currently an interest in two conserved development projects) remain suspended to minimise the risks until the situation in Ukraine becomes clearer. To secure the investment, in 2012 we privatised the land of the V.I. Center TOV development project together with the co-owners and in the first half of 2013 the privatised plots were mortgaged 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 31 December 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 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%. The interests presented in the chart have been rounded to full percentages.

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, belonged to Nordecon Betoon OÜ (a 95% stake) and Eurocon Ukraine TOV (a 5% stake).

Eurocon West TOV

In December, liquidation of the Group's Ukrainian entity, Eurocon West TOV, was finalised. The entity was wholly owned by Eurocon Ukraine TOV. The company did not conduct any business operations as from 2010.

Significant events after the reporting period

In January 2014, Nordecon AS acquired from the non-controlling owners 228 shares, i.e. a further 2.3% stake, in AS Eston Ehitus and became the subsidiary's sole owner. The transaction was performed in connection with the realisation of the obligation to purchase the remainder of the shares, undertaken by Nordecon AS under the agreement on the purchase of the majority stake in AS Eston Ehitus in 2007.

Financial review

Financial performance

Nordecon group's gross profit for 2013 amounted to 11,930 thousand euros (2012: 8,217 thousand euros) and gross margin was 6.9% (2012: 5.2%).

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. During the year (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 for the financial statements. Thanks to successful 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.

The rise in profitability was also 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 created conditions that favoured a rise in the projects' average profit margin.

The Group's administrative expenses for 2013 totalled 5,006 thousand euros, reflecting a certain decrease compared with the previous year (2012: 5,385 thousand euros). The ratio of administrative expenses to revenue was 2.9% (2012: 3.4%). Our cost-control measures continue to yield strong results – we have been able to maintain administrative expenses below the target ceiling, i.e. 5% of revenue.

At the year-end, we wrote down real estate held for development (reported within inventories) by 330 thousand euros (2012: no expenses from write-down of real estate). In addition, non-recurring expenses from the write-down of goodwill amounted to 348 thousand euros (2012: no expenses from write-down of goodwill). As a result, we ended the year with an operating profit of 5,840 thousand euros (2012: 2,687 thousand euros) and an EBITDA of 8,162 thousand euros (2012: 4,833 thousand euros).

The Group's net profit amounted to 5,200 thousand euros (2012: 1,926 thousand euros). The profit attributable to owners of the parent, Nordecon AS, was 5,195 thousand euros (2012: 1,477 thousand euros).

Cash flows

Operating activities for the year resulted in a net cash inflow of 5,426 thousand euros (2012: a net cash inflow of 8,941 thousand euros). In 2013, we completed a number of major projects that commenced in previous periods and for which we received substantial advances. Adjustment of subsequent billings for advances received and project-related retentions (release of the retentions has partially been postponed to 2014) led to a year over year decrease in net operating cash inflow. Amounts paid to employees increased as well (also proportionately), mostly on account of performance bonuses paid in the context of improved profitability.

Operating cash flows continued to be influenced by differences in settlement terms: the ones agreed with customers are long and in the case of public procurement generally extend from 45 to 56 days while subcontractors usually have to be paid within 21 to 45 days. Moreover, although amounts retained under subcontracts are smaller, they have to be released more quickly than those released by customers. We use factoring to counteract the impacts of cyclicality and overdraft facilities to raise working capital.

Investing activities resulted in a net cash outflow of 814 thousand euros (2012: a net outflow of 2,705 thousand euros). We continued to invest in property, plant and equipment although not as extensively as the year before. The volume of loans provided decreased and, in contrast to 2012, most of them were short-term loans to be repaid in 2014. During the year, we made contributions of 616 thousand euros to restore associates' negative equity and, as part of the same transactions, associates settled their loan interest commitments.

Financing activities resulted in a net cash outflow of 2,266 thousand euros (2012: a net outflow 5,913 thousand euros). Loan receipts exceeded loan repayments by 470 thousand euros, whereas in 2012 loan repayments exceeded loan receipts by 2,760 thousand euros. Borrowing grew in connection with growth in business operations. Compared with 2012, we made fewer early loan settlements with funds raised from asset sales. Finance lease payments declined considerably because several leases concluded in 2008 expired in 2013.

At 31 December 2013, the Group's cash and cash equivalents totalled 12,575 thousand euros (31 December 2012: 10,231 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	2013	2012	2011
Revenue (EUR'000)	173,953	159,422	147,802
Revenue growth	9.1%	7.9%	48.8%
Net profit/loss (EUR'000)	5,200	1,926	-4,708
Profit/loss attributable to owners of the parent (EUR'000)	5,195	1,477	-5,304
Weighted average number of shares	30,756,728	30,756,728	30,756,728
Earnings per share (EUR)	0.17	0.05	-0.17
Administrative expenses to revenue	2.9%	3.4%	3.1%
EBITDA (EUR'000)	8,162	4,833	-1,819
EBITDA margin	5.5%	3.0%	-1.2%
Gross margin	6.9%	5.2%	0.1%
Operating margin	3.4%	1.7%	-3.1%
Operating margin excluding gains on sales of real estate	3.2%	1.4%	-3.5%
Net margin	3.0%	1.2%	-3.2%
Return on invested capital	10.6%	5.2%	-5.9%
Return on equity	15.8%	6.6%	-15.2%
Equity ratio	33.7%	27.1%	28.0%
Gearing	23.3%	33.7%	32.8%
Current ratio	1.03	1.08	1.14

As at 31 December	2013	2012	2011
Order book (EUR'000)	64,631	127,259	134,043

* EBITDA for 2011 and 2013 includes impairment loss on goodwill of 435 thousand euros and 348 thousand euros respectively.

Revenue growth = (revenue for the reporting period/revenue for the previous period) – 1*100

Earnings per share (EPS) = net profit attributable to owners of the parent / weighted average number of shares outstanding

Administrative expenses to revenue = (administrative expenses/ revenue)*100

Administrative expenses to revenue (rolling) = (past four quarters' administrative expenses/past four quarters' revenue)*100

EBITDA = operating profit + depreciation and amortisation + impairment losses on goodwill

EBITDA margin = (EBITDA/revenue)*100

Gross margin = (gross profit/revenue)*100

Operating margin = (operating profit/revenue)*100

Operating margin excluding gains on sales of real estate = ((operating profit - gains on sale of property, plant and equipment - gains on sale of investment properties and real estate held for sale)/revenue) *100

Net margin = (net profit for the period/revenue)*100

Return on invested capital = ((profit before tax + interest expense)/ the period's average (interest-bearing liabilities + equity))*100

Return on equity = (net profit for the period/ the period's average total equity)*100

Equity ratio = (total equity/ total liabilities and equity)*100

Gearing = ((interest-bearing liabilities – cash and cash equivalents)/ (interest-bearing liabilities + equity))*100

Current ratio = total current assets/ total current liabilities

Performance by geographical market

In 2013, around 5% of the Group's revenue was generated outside Estonia compared with 2% in 2012.

	2013	2012	2011
Estonia	95%	98%	97%
Finland	5%	2%	2%
Belarus	0%	0%	1%

Finnish revenues comprise revenue from concrete works. In 2013 our Finnish subsidiary won a substantial contract that increased its business volumes.

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 we will focus on the Estonian market that we know best and which entails fewer known market risks. The Group's vision of our 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, environmental engineering, concrete works and real estate development.

The Group's revenue for 2013 amounted to 173,953 thousand euros, a 9% improvement on the 159,422 thousand euros generated in 2012.

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 2013, our two main operating segments, Buildings and Infrastructure, generated revenue of 71,977 thousand euros and 98,550 thousand euros respectively. The corresponding figures for 2012 were 66,924 thousand euros and 89,211 thousand euros (see note 8). The larger contribution and absolute figures of the Infrastructure segment (also compared to 2012) are mostly attributable to the performance of major road construction projects.

Operating segments*	2013	2012	2011
Buildings	41%	42%	48%
Infrastructure	59%	58%	52%

* 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 Betoon 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 in Tallinn. We expect the investment activity of private sector customers to remain robust and the contribution of the sub-segment to remain substantial also in the next financial year.

The revenues of the public buildings sub-segment decreased because we did not have any major projects comparable to those performed in 2012. 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. Our largest projects of 2013 were 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 the construction of an academic building for the NCO School of the Estonian National Defence College. In 2014 public investments in this market sub-segment are not expected to increase significantly and, thus, competition will remain fierce.

In the industrial and warehouse facilities sub-segment we continued to earn most of the revenue from the construction of buildings procured by the agricultural sector but the volume of such work was smaller than in previous years because allocations from the EU structural funds that co-finance the projects decreased at the end of the budget period. As regards new work for the agricultural sector, in 2013 we won a contract of over 9 million euros for building a dairy farm complex at Väätsa. Shrinkage in the volume of work done for the agricultural sector was counterbalanced by non-agricultural private investments in new industrial and production buildings.

Our apartment building revenues resulted mostly from general contracting. Compared with the previous year, the contribution of the sub-segment grew because in May we won a contract of around 10 million euros for the construction of an apartment building at Pirita tee 26 in Tallinn (our recent years' largest apartment building contract). The year was also successful in the sale of the last apartments and office premises in the Tigutorn development project. Only 4 Tigutorn apartments are still for sale. Phase I in our Magasini 29 development project (www.magasini.ee), which was launched in 2013, will be completed in 2014.

Revenue distribution within Buildings segment	2013	2012	2011
Commercial buildings	45%	26%	12%
Industrial and warehouse facilities	29%	35%	40%
Public buildings	21%	36%	45%
Apartment buildings	5%	3%	3%

As expected, the main revenue source for the Infrastructure segment was road construction. During the year, we were concurrently building the Aruvalla-Kose section of the Tallinn-Tartu motorway, construction package 4 of the Tartu western bypass and construction package 1 of the Tartu eastern ring road. All those projects were delivered, in the stage of substantial completion, in the last quarter of 2013.

In specialist engineering, the main projects were Sillamäe port and Kärdla guest harbour. The bulk of the work on Sillamäe port was done in 2012, which is why the contribution of the sub-segment decreased compared with the previous year. The work at Sillamäe will continue in 2014 but on a much smaller scale. The construction of Kärdla guest harbour was completed in the last quarter of 2013. Compared to prior years, the number of potential investment projects involving ports and other more complex facilities has increased but taking such projects to the construction stage is time-consuming.

The market for the construction of utility networks (other engineering) is going to shrink. The year 2013 was the last one in the previous EU financial framework through which investments of the sub-segment received most of their financing. A large share of public procurement tenders for relevant projects were already announced in previous years. Investments of the next EU budget period are still under preparation and should reach the tendering stage (in more considerable volumes) in 2015 and 2016.

The contribution of environmental engineering grew thanks to growth in investments made in the sector in previous years as well as successful bidding – during the year we secured a contract of 6.4 million euros for the reconstruction of the wastewater treatment plant of the town of Paide. However, we expect a decrease in environmental engineering work due to the same reasons that impact financing of the construction of utility networks from the EU budget.

Revenue distribution within Infrastructure segment	2013	2012	2011
Road construction and maintenance	54%	51%	47%
Specialist engineering (including hydraulic engineering)	8%	15%	10%
Other engineering	26%	27%	35%
Environmental engineering	12%	7%	8%

Order book

At 31 December 2013, our order book stood at 64,631 thousand euros, a 49% decrease compared with the end of 2012.

The largest decrease in our order book (backlog of contracts signed but not yet performed) has occurred in road construction (approx. 82%) where in 2013 we were involved in three major public procurement projects (construction of the Aruvalla-Kose section on the Tallinn-Tartu motorway, the Tartu western bypass, and the Tartu eastern ring road). All of them were completed by the year-end. The new national road management plan reflects a change in the structure of road construction investments. In particular, the proportion of large-scale projects is going to diminish. This means that companies engaged in road construction have to face a new reality – the average cost of road construction contracts is going to decrease, which will inevitably affect the competitive environment.

The order book for the construction of utility networks (other engineering sub-segment in the directors' report) has also shrunk significantly, 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 were expectedly smaller.

On the other hand, the order books of the commercial buildings and industrial and warehouse facilities sub-segments have almost doubled, mostly thanks to growth in private sector investments.

As at 31 December	2013	2012	2011
Order book (EUR'000)	64,631	127,259	134,043

At the reporting date, contracts secured by the Buildings segment and the Infrastructure segment accounted for 77% and 23% of the order book respectively. This is a radical change: compared with recent years the figures for the two segments have reversed (31 December 2012: 35% and 65% respectively). Building construction contracts will probably continue to dominate the order book for the next few years. In the current 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 2007-2013. In particular, this applies to 2014 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).

We believe that in a situation where the market is expected to shrink, our priority cannot be increasing or maintaining the Group's revenue. Instead, the main focus should be on improving profitability. We do not consider the present decline in the Group's order book to be critical. Based on our historical experience, it is quite typical that a significant portion of budgeted operating volumes is secured through new contracts signed during the year.

Between the reporting date (31 December 2013) and the date of release of this report, Group companies have secured additional construction contracts of approximately 7,073 thousand euros.

People

Staff and personnel expenses

In 2013, the Group (the parent and the subsidiaries) employed, on average, 757 people including 357 engineers and technical personnel (ETP). The number of staff did not change significantly compared with 2012.

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

	2013	2012	2011
ETP	357	367	351
Workers	400	397	380
Total average	**757**	**764**	**731**

The Group's personnel expenses for 2013 including all taxes totalled 20,792 thousand euros, 24% up on the comparative period when the figure was 16,803 thousand euros. Personnel expenses increased due to growth in operating volumes and performance bonuses provided for and paid in an environment of improved profitability. Selective increases of basic salaries had less impact.

In 2013, the service fees of the members of the council of Nordecon AS amounted to 141 thousand euros and associated social security charges totalled 47 thousand euros (2012: 141 thousand euros and 47 thousand euros respectively). Expenses on the provision for council members' performance bonuses, made based on the Group's performance indicators, amounted to 22 thousand euros and the provision for associated social security charges amounted 7 thousand euros (2012: 52 thousand euros and 17 thousand euros respectively).

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 (2012: 248 thousand euros and 82 thousand euros respectively, including the remuneration of the member of the board that was removed on 30 April 2012). Expenses on the provision for board members' performance bonuses, made based on the Group's performance indicators, amounted to 81 thousand euros and the provision for associated social security charges amounted 27 thousand euros (2012: 201 thousand euros and 66 thousand euros respectively, including the proportionate share of the member of the board that was removed on 30 April 2012).

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 year was weakened mainly 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 on the achievement of certain profit targets is an ordinary activity and, 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:

	2013	2012	2011
Nominal labour productivity (rolling), (EUR'000)	230	208.7	202.3
Change against the comparative period	10.1%	3.2%	57.7%
Nominal labour cost efficiency (rolling), (EUR'000)	8.4	9.5	10.4
Change against the comparative period	-11.6%	-8.6%	51.6%

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

Name of security	Nordecon AS ordinary share
Issuer	Nordecon AS
ISIN code	EE3100039496
Ticker symbol	NCN1T
Nominal value	No par value*
Total number of securities issued	30,756,728
Number of listed securities	30,756,728
Listing date	18 May 2006
Market	NASDAQ OMX Tallinn, Baltic Main List
Industry	Construction and engineering
Indexes	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

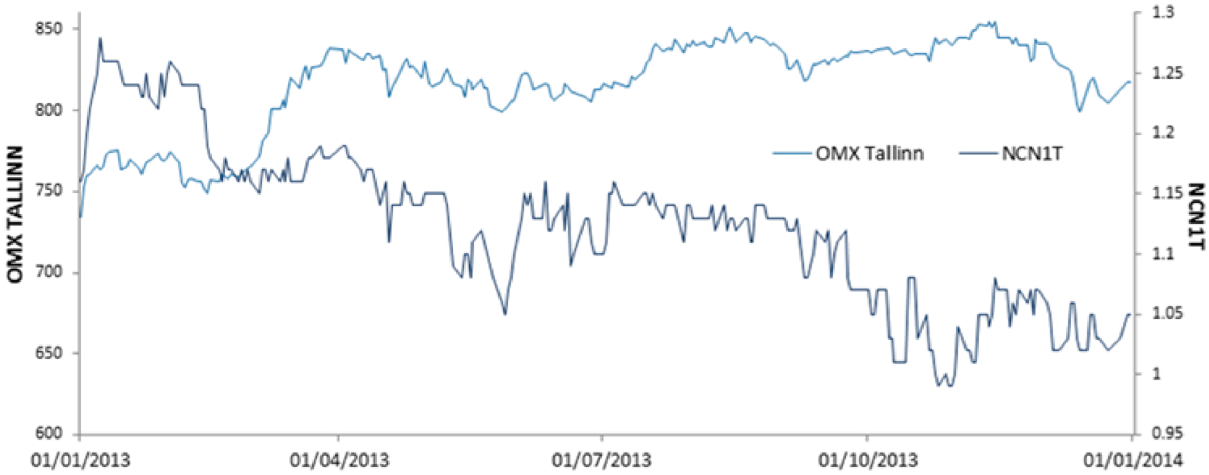
* In connection with Estonia's accession to the euro-zone on 1 January 2011 and in line with amendments to the Estonian Commercial Code that took effect on 1 July 2010 as well as a resolution adopted by the annual general meeting of Nordecon AS in May 2011, the company's share capital was converted from 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 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 2013



Index/equity	1 January 2013*	31 December 2013	+/-, %
OMX Tallinn	734.20	817.72	+11.38
NCN1T	EUR 1.16	EUR 1.05	-9.48

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

Summarised trading results

Share trading history (EUR)

Price	12M 2013	12M 2012	12M 2011
Open	1.17	0.92	1.38
High	1.29	1.26	1.50
Low	0.99	0.88	0.88
Last closing price	1.05	1.16	0.90
Traded volume (number of securities traded)	2,443,809	3,425,060	4,161,002
Turnover, millions	2.81	3.77	5.08
Listed volume (31 December), thousands	30,757	30,757	30,757
Market capitalisation (31 December), millions	32.29	35.68	27.68

Shareholder structure

Largest shareholders of Nordecon AS at 31 December 2013

Shareholder	Number of shares	Ownership interest (%)
AS Nordic Contractors	16,507,464	53.67
Luksusjaht AS	2,939,830	9.56
ING Luxembourg S.A.	2,007,949	6.53
Skandinaviska Enskilda Banken S.A.	677,308	2.20
SEB Pank AS clients	650,000	2.11
State Street Bank and Trust Omnibus Account A Fund	597,464	1.94
ASM Investments OÜ	519,600	1.69
Ain Tromp	478,960	1.56
SEB Elu- ja pensionikindlustus AS	262,700	0.85
Genadi Bulatov	250,600	0.81

Shareholder structure of Nordecon AS by ownership interest at 31 December 2013

	Number of shareholders	Ownership interest (%)
Shareholders with interest exceeding 5%	3	69.76
Shareholders with interest between 1% and 5%	5	9.50
Shareholders with interest below 1%	1,874	20.74
Total	**1,882**	**100**

Shares controlled by members of the council of Nordecon AS at 31 December 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
Alar Kroodo (ASM Investments OÜ)*	Member of the Council	519,600	1.69
Ain Tromp	Member of the Council	478,960	1.56
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
Total		**17,627,704**	**57.31**

* 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.

On 28 November 2013, member of the council Ain Tromp sold 100,000 shares in Nordecon AS.

Shares controlled by members of the board of Nordecon AS at 31 December 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
Total		**70,243**	**0.23**

* 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 intensified. The volume of public sector investments decreased and the prospects of maintaining operating volumes in 2014 are not good. Strong competitive pressure is driving bid prices down although input prices seem to be rising slowly. 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. In recent years a major share of investments was made with the assistance of EU support whose allocation was linked, both in terms of size and timing, to the EU financial framework 2007-2013. In general, the amounts that will be allocated to Estonia during the next EU financial framework (2014-2020) are known but the volume and schedule of investments involving construction work have not yet been finalised. According to information released to date, the overall volume of construction-related investments will decline compared with the previous budget period and 2014 may become a so-called 'gap' year between two budget periods, where most efforts are directed at preparatory administrative activities required for enabling the investments.

In light of the above, it is likely that in 2014 our 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 our business model, Nordecon operates in all segments of the construction market. Therefore, we are somewhat better positioned than those companies that operate in only 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, we endeavour 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 31 December 2013, the Group's warranties provisions (including current and non-current ones) totalled 1,546 thousand euros. At the end of 2012, the corresponding figure was 1,407 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 2013, impairment losses on receivables totalled 305 thousand euros (2012: 239 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 submitted their final opinions to the court. According to the regulations of the Arbitration Court, the latest date for a ruling is 28 February 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) 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 1.03-fold (31 December 2012: 1.08-fold). The figure has dropped compared with the previous year due to the reclassification of loans provided to the Group's Ukrainian subsidiaries.

The political situation in Ukraine has aggravated and we believe that we will need more time for realising our Ukrainian investment properties. Accordingly, at the year-end we reclassified loan receivables from our Ukrainian associates to non-current assets. On the other hand, we had our largest Ukrainian development project appraised as at the year-end and determined that there was no need to write the loan receivables down.

Interest-bearing liabilities account for a significant proportion of our 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. At 31 December 2013, overdrafts (balances in use) that need to be refinanced in 2014 totalled 6,910 thousand euros. At the date of release of this report, the amount is expected to increase rather than decrease. If interest-bearing liabilities were refinanced to the above extent, the adjusted current ratio would be 1.15. Similarly to previous years, we are working with our main financing partners to find ways for restructuring our liabilities. The plan for 2014 should be completed by April.

At the reporting date, the Group's cash and cash equivalents totalled 12,575 thousand euros (31 December 2012: 10,231 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 31 December 2013, the Group's interest-bearing loans and borrowings totalled 27,178 thousand euros, a decrease of 3,677 thousand euros year over year. Interest expense for 2013 amounted to 1,055 thousand euros, 42 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 2013, the exchange rate of the Ukrainian hryvna against the euro was stable. The Group's net foreign exchange loss for the period was 104 thousand euros (2012: a net foreign exchange loss of 95 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 2014 public investment is expected to decrease in connection with the commencement of a new EU budget period. The investments made by the largest public sector customers, Riigi Kinnisvara AS (a state-owned real estate company) and the National Road Administration, that reach the stage of conclusion of a construction contract in 2014, will either not increase significantly or may even decrease. The situation may be somewhat alleviated by private customers' increasing investment in building construction.
- 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 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, there are currently 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 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, 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 be 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 the Estonian market in 2014 it will probably see shrinkage in public sector demand. Accordingly, it is unlikely that we will enter to the Latvian construction market permanently in 2014.

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. The political situation in Ukraine gives cause for concern and undoubtedly affects adoption of business decisions by construction market participants. Regardless of this, we will continue our business in Ukraine in 2014. Compared with the previous year, we have a larger Ukrainian order book than a year ago. 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 also deliver some more complex services. 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	13 February 2014
Avo Ambur	Member of the Board	13 February 2014
Erkki Suurorg	Member of the Board	13 February 2014

Condensed consolidated interim financial statements

Condensed consolidated interim statement of financial position

EUR '000	Note	31 December 2013	31 December 2012
ASSETS			
Current assets			
Cash and cash equivalents		12,575	10,231
Trade and other receivables	2	28,900	42,896
Prepayments		1,710	1,840
Inventories	3	23,899	26,243
Total current assets		**67,084**	**81,210**
Non-current assets			
Investments in equity-accounted investees		590	202
Other investments		26	26
Trade and other receivables	2	10,645	1,554
Investment property		3,549	4,930
Property, plant and equipment	4	9,030	8,851
Intangible assets	4	14,494	14,857
Total non-current assets		**38,334**	**30,420**
TOTAL ASSETS		**105,418**	**111,630**
LIABILITIES			
Current liabilities			
Loans and borrowings	5, 6	23,876	27,185
Trade payables		25,918	31,968
Other payables		8,287	5,014
Deferred income		6,415	11,404
Provisions		913	521
Total current liabilities		**65,409**	**76,092**
Non-current liabilities			
Loans and borrowings	5, 6	3,303	3,671
Trade payables		155	259
Other payables		96	96
Provisions		969	1,210
Total non-current liabilities		**4,523**	**5,236**
TOTAL LIABILITIES		**69,932**	**81,328**
EQUITY			
Share capital		19,657	19,657
Statutory capital reserve		2,554	2,554
Translation reserve		-299	-404
Retained earnings		11,234	6,039
Total equity attributable to owners of the parent		**33,146**	**27,846**
Non-controlling interests		**2,340**	**2,456**
TOTAL EQUITY		**35,486**	**30,302**
TOTAL LIABILITIES AND EQUITY		**105,418**	**111,630**

Condensed consolidated interim statement of comprehensive income

EUR '000	Note	Q4 2013	Q4 2012	12M 2013	12M 2012
Revenue	8, 9	39,220	42,554	173,953	159,422
Cost of sales	10	-36,716	-40,358	-162,023	-151,205
Gross profit		**2,504**	**2,196**	**11,930**	**8,217**
Marketing and distribution expenses		-171	-136	-452	-389
Administrative expenses	11	-1,439	-1,444	-5,006	-5,385
Other operating income	12	104	190	464	810
Other operating expenses	12	-745	-220	-1,096	-566
Operating profit		**253**	**586**	**5,840**	**2,687**
Finance income	13	161	163	668	622
Finance costs	13	-140	-576	-1,027	-1,248
Net finance income/costs		**21**	**-413**	**-359**	**-626**
Share of loss of equity-accounted investees		-343	-218	-146	-79
Profit/loss before income tax		**-69**	**-45**	**5,335**	**1,982**
Income tax expense		-40	-12	-135	-56
Profit/loss for the period		**-109**	**-57**	**5,200**	**1,926**
Other comprehensive income:					
Exchange differences on translating foreign operations		56	57	105	59
Total other comprehensive income for the period		**56**	**57**	**105**	**59**
TOTAL COMPREHENSIVE INCOME/EXPENSE FOR THE PERIOD		**-53**	**0**	**5,305**	**1,985**
Profit/loss attributable to:					
- Owners of the parent		58	-151	5,195	1,477
- Non-controlling interests		-167	94	5	449
Profit/loss for the period		**-109**	**-57**	**5,200**	**1,926**
Total comprehensive income/expense attributable to:					
- Owners of the parent		114	-94	5,300	1,536
- Non-controlling interests		-167	94	5	449
Total comprehensive income/expense		**-53**	**0**	**5,305**	**1,985**
Earnings per share attributable to owners of the parent:					
Basic earnings per share (EUR)	7	0.00	0.00	0.17	0.05
Diluted earnings per share (EUR)	7	0.00	0.00	0.17	0.05

Condensed consolidated interim statement of cash flows

EUR '000	Note	12M 2013	12M 2012
Cash flows from operating activities			
Cash receipts from customers[1]		204,768	193,524
Cash paid to suppliers[2]		-175,465	-161,447
VAT paid		-5,131	-6,192
Cash paid to and for employees		-18,647	-16,888
Income tax paid		-99	-56
Net cash from operating activities		**5,426**	**8,941**
Cash flows from investing activities			
Purchase of property, plant and equipment		-458	-1,792
Proceeds from sale of property, plant and equipment and intangible assets	4	317	379
Investments made in associates		-616	0
Loans provided		-922	-1,709
Repayment of loans provided		245	399
Dividends received		4	0
Interest received		616	18
Net cash used in investing activities		**-814**	**-2,705**
Cash flows from financing activities			
Proceeds from loans received		3,440	3,190
Repayment of loans received		-2,970	-5,950
Dividends paid		-121	-80
Payment of finance lease liabilities		-1,670	-1,967
Interest paid		-945	-1,106
Net cash used in financing activities		**-2,266**	**-5,913**
Net cash flow		**2,346**	**323**
Cash and cash equivalents at beginning of period		**10,231**	**9,908**
Effect of exchange rate fluctuations on cash and cash equivalents		-2	0
Increase in cash and cash equivalents		2,346	323
Cash and cash equivalents at end of period		**12,575**	**10,231**

[1] Line item *Cash receipts from customers* includes VAT paid by customers.

[2] 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						
	Share capital	Statutory capital reserve	Translation reserve	Retained earnings	Total	Non-controlling interests	Total
Balance at 31 December 2011	**19,657**	**2,554**	**-463**	**4,563**	**26,311**	**2,086**	**28,397**
Profit for the period	0	0	0	1,477	1,477	449	1,926
Other comprehensive income	0	0	59	0	59	0	59
Dividends paid	0	0	0	0	0	-80	-80
Effect of rounding	-	-	-	-1	-1	1	0
Balance at 31 December 2012	**19,657**	**2,554**	**-404**	**6,039**	**27,846**	**2,456**	**30,302**
Profit for the period	0	0	0	5,195	5,195	5	5,200
Other comprehensive income	0	0	105	0	105	0	105
Dividends paid	0	0	0	0	0	-121	-121
Balance at 31 December 2013	**19,657**	**2,554**	**-299**	**11,234**	**33,146**	**2,340**	**35,486**

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 31 December 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 the notes to the interim financial statements.

According to management's assessment, the condensed consolidated interim financial statements of Nordecon AS for the fourth quarter and twelve 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**	**31 December 2013**	**31 December 2012**
Trade receivables		18,116	20,407
Retentions receivable		3,541	4,479
Receivables from related parties		138	1,016
Loans to related parties	14	1,786	10,475
Miscellaneous receivables		1,732	1,014
Total receivables and loans provided		**25,313**	**37,391**
Due from customers for contract work		3,587	5,505
Total trade and other receivables		**28,900**	**42,896**

EUR '000

Non-current portion	**Note**	**31 December 2013**	**31 December 2012**
Loans to related parties	14	10,267	1,168
Miscellaneous receivables		378	386
Total trade and other receivables		**10,645**	**1,554**

NOTE 3. Inventories

EUR '000	**31 December 2013**	**31 December 2012**
Raw materials and consumables	3,623	3,524
Work in progress	5,176	7,374
Goods for resale and properties purchased for development	14,222	13,741
Finished goods	878	1,604
Total inventories	**23,899**	**26,243**

During the period, an item of real estate of 1,381 thousand euros, located in Tartu city centre, was reclassified from investment property to inventories because the item no longer qualified for recognition as an investment property. We now view the asset as an item with development potential that can be used in our operating activity.

NOTE 4. Property, plant and equipment and intangible assets

Property, plant and equipment

The period's additions to property, plant and equipment totalled 2,215 thousand euros and mainly consisted of equipment and construction machinery acquired for the Group's operating activities. Most items were acquired with finance leases.

Proceeds from the sale of property, plant and equipment totalled 317 thousand euros (see the statement of cash flows) and sales gain on the transactions amounted to 272 thousand euros (see note 12).

Intangible assets

In the fourth quarter of 2013, we wrote down goodwill allocated to the investment in AS Eston Ehitus by 348 thousand euros. The impairment loss was recognised within other operating expenses (see note 12) in profit/loss for the period.

NOTE 5. Finance and operating leases

EUR '000	31 December 2013	31 December 2012
Finance lease liabilities at end of reporting period	**3,834**	**3,736**
Of which payable in less than 1 year	1,076	1,269
Of which payable between 1 and 5 years	2,758	2,467
Base currency EUR	3,834	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	12M 2013	12M 2012
Principal payments made during the period	1,670	1,967
Interest payments made during the period	143	118

Operating lease payments made	12M 2013	12M 2012
Payments made for cars	641	649
Payments made for construction equipment	2,005	1,804
Payments made for premises	521	634
Payments made for software	259	358
Total operating lease payments made	**3,426**	**3,445**

NOTE 6. Loans and borrowings

Short-term loans and borrowings

EUR '000	Note	31 December 2013	31 December 2012
Current portion of long-term loans		8,576	11,593
Current portion of finance lease liabilities	5	1,076	1,269
Short-term bank loans		10,849	7,463
Factoring liabilities		3,375	6,860
Total short-term loans and borrowings		**23,876**	**27,185**

Long-term loans and borrowings

EUR '000	Note	31 December 2013	31 December 2012
Long-term bank loans		545	220
Finance lease liabilities	5	2,758	2,467
Other long-term loans		0	984
Total long-term loans and borrowings		**3,303**	**3,671**

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	12M 2013	12M 2012
Profit for the period attributable to owners of the parent	5,195	1,477
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.

12 months

EUR '000 12 months 2013	Buildings EU	Buildings UKR	Infrastructure EU	Other segments	Total
Total revenue	71,220	822	98,983	4,323	175,348
Inter-segment revenue	0	-45	-433	-2,432	-2,910
Revenue from external customers	**71,220**	**777**	**98,550**	**1,891**	**172,438**
Gross profit of the segment	**4,695**	**171**	**7,550**	**475**	**12,891**

EUR '000 12 months 2012	Buildings EU	Buildings UKR	Infrastructure EU	Other segments	Total
Total revenue	66,896	356	89,217	4,003	160,472
Inter-segment revenue	-64	-264	-6	-2,191	-2,525
Revenue from external customers	**66,832**	**92**	**89,211**	**1,812**	**157,947**
Gross profit/loss of the segment	**4,801**	**-303**	**4,344**	**224**	**9,066**

Fourth quarter

EUR '000 Q4 2013	Buildings EU	Buildings UKR	Infrastructure EU	Other segments	Total
Total revenue	19,018	684	18,990	957	39,649
Inter-segment revenue	0	0	-28	-830	-858
Revenue from external customers	**19,018**	**684**	**18,962**	**127**	**38,791**
Gross profit of the segment	**769**	**135**	**1,906**	**55**	**2,865**

EUR '000 Q4 2012	Buildings EU	Buildings UKR	Infrastructure EU	Other segments	Total
Total revenue	17,285	24	24,522	910	42,741
Inter-segment revenue	0	10	-30	-512	-532
Revenue from external customers	**17,285**	**34**	**24,492**	**398**	**42,209**
Gross profit/loss of the segment	**1,162**	**-194**	**1,449**	**-22**	**2,395**

Reconciliation of segment revenues

EUR '000	12M 2013	Q4 2013	12M 2012	Q4 2012
Total revenues for reportable segments	171,025	38,692	156,469	41,831
Revenue for other segments	4,323	957	4,003	910
Elimination of inter-segment revenues	-2,910	-858	-2,525	-532
Unallocated revenue	1,515	429	1,475	345
Total consolidated revenue	**173,953**	**39,220**	**159,422**	**42,554**

Reconciliation of segment profit

EUR '000	12M 2013	Q4 2013	12M 2012	Q4 2012
Total profit for reportable segments	12,416	2,810	8,842	2,417
Total profit/loss for other segments	475	55	224	-22
Elimination of inter-segment profits and losses	-10	-4	-17	-3
Unallocated profits and losses	-951	-357	-832	-196
Consolidated gross profit	**11,930**	**2,504**	**8,217**	**2,196**
Unallocated expenses:				
Marketing and distribution expenses	-452	-171	-389	-136
Administrative expenses	-5,006	-1,439	-5,385	-1,444
Other operating income and expenses	-632	-641	244	-30
Consolidated operating profit	**5,840**	**253**	**2,687**	**586**
Finance income	668	161	622	163
Finance costs	-1,027	-140	-1,248	-576
Share of loss of equity-accounted investees	-146	-343	-79	-218
Consolidated profit/loss before tax	**5,335**	**-69**	**1,982**	**-45**

NOTE 9. Segment reporting – geographical information

EUR '000	12M 2013	Q4 2013	12M 2012	Q4 2012
Estonia	164,606	33,028	156,801	41,217
Ukraine	822	684	348	24
Belarus	0	0	8	0
Finland	8,571	5,505	2,649	1,353
Inter-segment eliminations	-46	3	-384	-40
Total revenue	**173,953**	**39,220**	**159,422**	**42,554**

NOTE 10. Cost of sales

EUR '000	12M 2013	12M 2012
Cost of materials, goods and services used	141,916	135,279
Personnel expenses	18,070	13,778
Depreciation and amortisation expense	1,818	1,919
Other expenses	219	229
Total cost of sales	**162,023**	**151,205**

NOTE 11. Administrative expenses

EUR '000	12M 2013	12M 2012
Cost of materials, goods and services used	2,008	2,020
Personnel expenses	2,722	3,025
Depreciation and amortisation expense	156	227
Other expenses	120	113
Total administrative expenses	**5,006**	**5,385**

NOTE 12. Other operating income and expenses

Other operating income

EUR '000	12M 2013	12M 2012
Gain on sale of property, plant and equipment and intangible assets	272	530
Foreign exchange gain	3	0
Other income	189	280
Total other operating income	**464**	**810**

Other operating expenses

EUR '000	12M 2013	12M 2012
Loss on disposal of property, plant and equipment and intangible assets	14	130
Loss on write-down of real estate	330	0
Loss on write-down of goodwill	348	0
Foreign exchange loss	1	71
Net loss on recognition and reversal of impairment losses on receivables	305	239
Other expenses	98	126
Total other operating expenses	**1,096**	**566**

NOTE 13. Finance income and costs

Finance income

EUR '000	12M 2013	12M 2012
Interest income on loans	622	600
Foreign exchange gain	37	6
Other finance income	9	16
Total finance income	**668**	**622**

Finance costs

EUR '000	12M 2013	12M 2012
Interest expense	1,055	1,097
Foreign exchange loss	144	30
Other finance costs	-172	121
Total finance costs	**1,027**	**1,248**

In the reporting period, we reversed impairment losses of 233 thousand euros previously recognised on receivables (other finance costs) because the underlying receivables were settled in cash.

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		12M 2013		12M 2012
Volume of transactions performed	**Purchase**	**Sale**	**Purchase**	**Sale**
AS Nordic Contractors	319	0	370	3
Companies of AS Nordic Contractors group	6	691	20	5,873
Equity-accounted investees	1,170	26	180	23
Companies connected with members of the council	53	254	59	0
Total	**1,548**	**971**	**629**	**5,899**

EUR '000		12M 2013		12M 2012
Volume of transactions performed	**Purchase**	**Sale**	**Purchase**	**Sale**
Construction services	1,170	685	268	5,880
Lease and other services	378	286	361	19
Total	**1,548**	**971**	**629**	**5,899**

During the period, we recognised interest income on loans to associates of 505 thousand euros (2012: 491 thousand euros) and on loans to a joint venture of 113 thousand euros (2012: 111 thousand euros).

Receivables from and liabilities to related parties at period-end

EUR '000	31 December 2013 Receivables	31 December 2013 Liabilities	31 December 2012 Receivables	31 December 2012 Liabilities
AS Nordic Contractors	0	9	1	8
Companies of AS Nordic Contractors group	1	0	584	0
Associates - receivables	137	167	431	4
Associates – loans and interest	10,385	0	9,754	0
Joint ventures – loans and interest	1,668	0	1,889	0
Total	**12,191**	**176**	**12,659**	**12**

In 2013, the service fees of the members of the council of Nordecon AS amounted to 141 thousand euros and associated social security charges totalled 47 thousand euros (2012: 141 thousand euros and 47 thousand euros respectively). Expenses on the provision for council members' performance bonuses, made based on the Group's performance indicators, amounted to 22 thousand euros and the provision for associated social security charges amounted 7 thousand euros (2012: 52 thousand euros and 17 thousand euros respectively).

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 (2012: 248 thousand euros and 82 thousand euros respectively, including the remuneration of the member of the board that was removed on 30 April 2012). Expenses on the provision for board members' performance bonuses, made based on the Group's performance indicators, amounted to 81 thousand euros and the provision for associated social security charges amounted 27 thousand euros (2012: 201 thousand euros and 66 thousand euros respectively, including the proportionate share of the member of the board that was removed on 30 April 2012).

NOTE 15. Contingent assets and liabilities

In its annual report for 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. Thus, 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 (they cannot 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 September 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 fourth quarter and twelve 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	13 February 2014
Avo Ambur	Member of the Board	13 February 2014
Erkki Suurorg	Member of the Board	13 February 2014