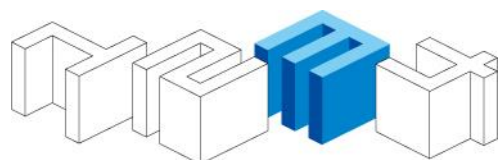




**Financial report for the third quarter
and nine months of 2015**
(unaudited)





Financial report for the third quarter and nine months of 2015 (unaudited)

Business name	Nordecon AS
Registry number	10099962
Address	Pärnu mnt 158/1, 11317 Tallinn
Domicile	Republic of Estonia
Telephone	+ 372 615 4400
E-mail	nordecon@nordecon.com
Corporate website	www.nordecon.com
Core business lines	Construction of residential and non-residential buildings (EMTAK 4120) Construction of roads and motorways (EMTAK 4211) Road maintenance (EMTAK 4211) Construction of utility projects for fluids (EMTAK 4221) Construction of water projects (EMTAK 4291) Construction of other civil engineering projects (EMTAK 4299)
Financial year	1 January 2015 – 31 December 2015
Reporting period	1 January 2015 – 30 September 2015
Council	Toomas Luman (chairman of the council), Andri Hõbemägi, Vello Kahro, Sandor Liive, Meelis Milder
Board	Jaano Vink (chairman of the board), Avo Ambur, Erkki Suurorg
Auditor	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 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 more actively 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.

The shares in Nordecon AS have 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

Strategic agenda for 2014-2017

The Group's strategic business agenda and targets for the period 2014-2017

Business activities

- Our business operations in Estonia are equally divided between two segments, building and infrastructure construction, where we compete in all major sub-segments.
- Our chosen foreign markets are Finland, Ukraine, Sweden, Latvia and Lithuania. In the first two, we conduct our business through local subsidiaries. Entering the Latvian, Lithuanian and Swedish construction markets through local subsidiaries assumes an economic rationale and the earliest time for this is 2015.
- We focus on our own real estate development operations in Estonia (in Tallinn, Tartu, Pärnu and Narva).
- We develop our energy efficiency and building information modelling (BIM) competencies as developments in these areas are likely to lead to a new quality standard in the construction market.
- We build strategic alliances in areas where we lack competence.

Group structure and organisation

- The Group's structure is optimal and we are not going to change it unless significant changes take place in the construction market.
- We invest consistently in our IT-capabilities and -integration both at the level of the organisation and the employee.
- We apply additional measures for improving cooperation between our entities and structural units.

Financial targets

- By 2017 our gross margin will be at least 8% and EBITDA margin at least 6%.
- Administrative expenses will not exceed 4% of annual revenue.
- We will distribute, whenever possible, at least 15% of profit before tax for the year as dividends.
- Our own real estate development operations in Estonia will generate up to 5% of total revenue.



Changes in the Group's business operations

Changes in the Group's Estonian operations

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

As regards our other main business lines, we continued to provide concrete services (Nordecon Betoon OÜ), lease out heavy construction machinery and equipment (Kaurits OÜ), and render 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 segments in Estonia.

Changes in the Group's foreign operations

In line with the Group's strategy, our chosen foreign markets are Latvia, Lithuania, Ukraine, Sweden and Finland.

Latvia

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

Ukraine

At the beginning of 2014, the political and economic situation in Ukraine became strained due to differences between Ukraine and Russia. Economic uncertainty caused the Ukrainian hryvnia to plummet against the euro. The weakening of the hryvnia has continued in 2015, causing the Group to recognise exchange losses of around 0.4 million euros for the period. In recent years, the Group's activity under its Ukrainian contracts has been subdued and highly conservative, with work done in the capital Kiev only. The military conflict raging 700 km away in eastern Ukraine has not had a direct impact on our activities, mostly because the number of local employees was already reduced to a minimum during earlier periods of recession and we have only accepted contracts where we have been certain that the risks involved are reasonable considering the circumstances. We see opportunities for increasing our operating volumes in Kiev somewhat, compared with 2014, provided the risks can be sufficiently mitigated.

Real estate development activities that require extensive investment (we have currently stakes in two development projects that have been put on hold) remain suspended to minimise the risks until the situation in Ukraine stabilises. To secure their investment, the Group and its co-owners have privatised the land held by the associate V.I. Center TOV and have encumbered it with mortgages to secure the loans provided by the Group.

Finland

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

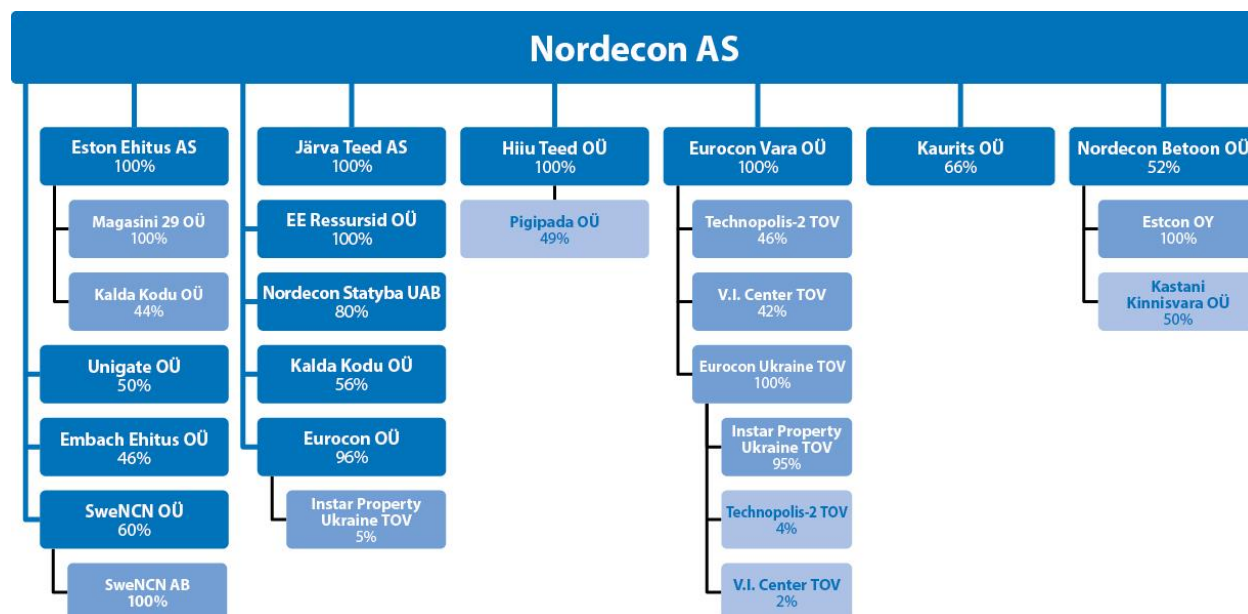
Sweden

At the end of 2014, we made the strategic decision to start preparing for entering the Swedish construction market. During the period, we made the necessary preparations and began bidding in order to win contracts. In October 2015, we secured the first contract for the construction of a five-storey apartment building in Stockholm.



Group structure

The Group's structure at 30 September 2015, 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, OÜ Paekalda 9 and Eurocon Bud TOV that are currently dormant. The first four were established to protect former business names. Nor does the chart include investments in entities in which the Group's interest is less than 20%

Significant changes in the Group's structure

SweNCN OÜ

On 6 February 2015 (the date of signature of the entity's memorandum of association), Nordecon AS acquired a 60% stake in SweNCN OÜ (a company being established). The remaining 40% stake was acquired by Luksusjaht AS, which has a 10.61% interest in Nordecon AS. The sole owner of Luksusjaht AS, Sven Lennart Alpstål, has a 0.09% interest in Nordecon AS.

The core business of SweNCN OÜ is construction of residential and non-residential buildings in central Sweden through a wholly-owned subsidiary established in Sweden. At the date of establishment, the share capital of SweNCN OÜ amounted to 2,500 euros. Nordecon AS made the investment to carry out research and make preparations for a prospective expansion into a new geographical market.

Embach Ehitus OÜ

On 3 February 2015 (the date of signature of the entity's memorandum of association), Nordecon AS acquired a 46% stake in Embach Ehitus OÜ (a company being established). The core business of Embach Ehitus OÜ contracting in the building construction segment. The company will focus on offering services to private sector customers that are interested in carrying out construction and development projects in southern Estonia. At the date of establishment, the share capital of Embach Ehitus OÜ amounted to 2,500 euros. Nordecon AS made the investment in order to respond flexibly to changes taking place in the construction market and to move closer to prospective customers.

V.I. Center TOV

To better manage its business risks, in February 2015 the Group's Ukrainian subsidiary Eurocon Ukraine TOV sold most of its 44% stake in V.I. Center TOV, an entity holding a real estate development project, to Eurocon Vara OÜ. The transaction did not change the Group's ownership interest in V.I. Center TOV, which remained 44% through Eurocon Vara OÜ's 42% and Eurocon Ukraine TOV's 2%.



SWENCN AB

On 2 July 2015, Nordecon AS's subsidiary SweNCN OÜ acquired 100% ownership in SWENCN AB, a company registered in the Kingdom of Sweden, from the company's sole shareholder Lennart Alpstål who is, through Luksusjaht AS, a shareholder in both Nordecon AS and SweNCN OÜ. The share capital of SWENCN AB amounts to 100,000 Swedish kronas (10,697 euros) and its core business is provision of construction services. Acquisition of the company was a strategic decision aimed at enabling the Group to expand its operations and provide construction services in the Kingdom of Sweden.



Financial review

Financial performance

Nordecon group ended the first nine months of 2015 with a gross profit of 6,301 thousand euros (9M 2014: 8,791 thousand euros) and a gross margin of 5.5% (9M 2014: 7.3%). Compared with a year earlier, gross margin weakened in the Buildings segment and improved slightly in the Infrastructure segment where the main sources of profit were road construction and road maintenance. Our third quarter result was strongly affected by the continuing year-on-year decline in the profitability of the Buildings segment. A key factor of the current year is the lower profitability of new construction contracts that have been secured in an environment of stiffer competition.

Nordecon's leadership has noted the stagnation and the resulting strong competitive pressures in the construction market already in earlier periods (see also the chapters *Order book*, *Description of the main risks* and *Outlooks of the Group's geographical markets*) and has enforced measures for maintaining the Group's profitability. In the current year, the infrastructure market has not recovered as expected and new project launches have mostly been postponed. In the buildings market, bidding activity is relatively high but the prices of most new contracts do not cover the risks involved and instigate caution. In entering into long-term contracts, we remain aware of the risks inherent in the changes taking place in our operating environment and uphold the policy that no contract may be signed to simply grow the portfolio and no new project may cause a significant rise in our operational risks.

The Group's administrative expenses for the first nine months of 2015 totalled 3,418 thousand euros, a decrease of around 15% from a year ago (9M 2014: 4,006 thousand euros). The ratio of administrative expenses to revenue (12 months rolling) was 3.3% (9M 2014: 3.4%). The Group's cost-control measures continue to yield strong results: we have been able to keep administrative expenses below the target ceiling, i.e., 4% of revenue.

The Group ended the first nine months of 2015 with an operating profit of 2,815 thousand euros (9M 2014: 4,379 thousand euros) and an EBITDA of 4,187 thousand euros (9M 2014: 5,743 thousand euros).

Adverse movements in the euro/hryvnia exchange rate gave rise to exchange losses that were smaller than a year ago. During the period, the Ukrainian currency weakened by around 20%, which meant that Group companies whose functional currency is the hryvnia had to restate their euro-denominated liabilities. Exchange losses reported within finance costs totalled 375 thousand euros (9M 2014: 817 thousand euros). The same movements in the exchange rate gave rise to a positive change of 389 thousand euros in the translation reserve recognised in equity (9M 2014: 721 thousand euros) and the net effect of the exchange loss on the Group's net assets was a gain of 14 thousand euros (9M 2014: a loss of 96 thousand euros).

Net profit for the period amounted to 2,317 thousand euros (9M 2014: 3,250 thousand euros), of which net profit attributable to owners of the parent, Nordecon AS, was 2,482 thousand euros (9M 2014: 2,607 thousand euros).

Cash flows

Operating activities of the period generated a net cash outflow of 3,682 thousand euros (9M 2014: an outflow of 5,661 thousand euros). The negative operating cash flow is mainly attributable to a mismatch between the projects' actual stage of completion (recognised revenue) and the amounts billed to customers. Cash flows are also strongly affected by the fact that neither public nor private sector customers are required to make advance payments while the Group has to make prepayments to sub-contractors, materials suppliers, etc. In the current market situation, a prepayment from a customer is an exception rather than a rule, which puts additional pressure on the cash flows of construction companies. Moreover, cash inflow is reduced by retentions, which extend from 5 to 10% of the contract price and are released only at the end of the construction period. In addition, cash flow is influenced by a mismatch between settlement terms: the ones agreed with customers are relatively long and in the case of public procurement mostly extend from 30 to 56 days while subcontractors generally have to be paid within 21 to 45 days. During the period, there was also a slight increase in payments to employees that resulted from performance bonuses paid for projects completed in the previous year with higher than expected profit margins.

Investing activities resulted in a net outflow of 91 thousand euros (9M 2014: a net outflow of 992 thousand euros). Cash flows from investing activities were mainly influenced by acquisitions of property, plant and equipment of 414 thousand euros (9M 2014: 284 thousand euros) and sales of used property, plant and equipment for 238 thousand euros (9M 2014: 185 thousand euros). In the first nine months of 2014, the Group invested 719 thousand euros to acquire additional ownership interest in subsidiaries; in the current year, investments of a



similar scale have not been made. Dividends received amounted to 108 thousand euros (9M 2014: 4 thousand euros).

Financing activities resulted in a net cash inflow of 1,529 thousand euros (9M 2014: a net inflow of 1,785 thousand euros). Loan receipts exceeded repayments by 4,509 thousand euros (9M 2014: by 4,664 thousand euros). A major share of cash inflow from financing activities resulted from use of overdraft facilities designed for raising working capital for operating activities and bank loans for partial financing of own development projects. Finance lease payments totalled 1,309 thousand euros (9M 2014: 1,110 thousand euros). Dividends distributed in the first nine months of 2015 totalled 1,091 thousand euros (9M 2014: 940 thousand euros).

As at 30 September 2015, the Group's cash and cash equivalents totalled 6,558 thousand euros (30 September 2014: 7,704 thousand euros). Management's comments on liquidity risks are presented in the chapter *Description of the main risks*.

Key financial figures and ratios

Figure/ratio	9M 2015	9M 2014	9M 2013	2014
Revenue (EUR'000)	113,553	120,936	134,733	161,289
Revenue change	-6.1%	-10.2%	15.1%	-7.1%
Net profit (EUR'000)	2,317	3,250	5,309	2,298
Net profit attributable to owners of the parent (EUR'000)	2,482	2,607	5,137	1,956
Weighted average number of shares	30,756,728	30,756,728	30,756,728	30,756,728
Earnings per share (EUR)	0.08	0.08	0.17	0.06
Administrative expenses to revenue	3.0%	3.3%	2.6%	3.5%
Administrative expenses to revenue (rolling)	3.3%	3.4%	2.8%	3.5%
EBITDA (EUR'000)	4,187	5,871	7,088	5,585
EBITDA margin	3.7%	4.9%	5.3%	3.5%
Gross margin	5.5%	7.3%	7.0%	6.1%
Operating margin	2.5%	3.6%	4.1%	2.5%
Operating margin excluding gain on asset sales	2.3%	3.5%	4.0%	2.3%
Net margin	2.0%	2.7%	3.9%	1.4%
Return on invested capital	5.0%	6.5%	8.9%	5.8%
Return on equity	6.2%	9.0%	16.1%	6.4%
Equity ratio	35.9%	34.2%	27.0%	37.3%
Return on assets	2.3%	3.0%	4.4%	2.3%
Gearing	33.4%	33.4%	42.8%	24.8%
Current ratio	1.07	1.05	1.12	1.02
As at	30 Sept 2015	30 Sept 2014	30 Sept 2013	31 Dec 2014
Order book (EUR'000)	76,261	92,455	85,765	83,544

Revenue change = (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 gain on asset sales = ((operating profit – gain on sales of non-current assets – gain on sales of real estate)/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

Return on assets = (net profit for the period/the period's average total assets)*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 the first nine months of 2015, around 4% of the Group's revenue was generated outside Estonia compared with 6% in the same period in 2014. The contribution of foreign markets has declined due to lower sales in Finland.

	9M 2015	9M 2014	9M 2013	2014
Estonia	96%	94%	98%	94%
Finland	1%	4%	2%	2%
Ukraine	3%	2%	0%	4%

Finnish revenue comprised revenue from concrete works in the building construction segment. The contribution of the Finnish market has decreased because major projects have been completed. The relative importance of the Ukrainian market, where we mainly continue to perform one building construction contract, has increased.

Geographical diversification of the revenue base is a consciously deployed strategy by which we mitigate the risks resulting from excessive reliance on a single market. However, conditions in our chosen foreign markets are also volatile and have a strong impact on our current results. Our strategy foresees increasing foreign operations in the longer term; for further information, see the chapter *Strategic agenda for 2014-2017*. Our vision for our operations in foreign markets is described in the chapter *Outlooks of the Group's geographical markets*.

Performance by business line

Segment revenues

We strive to maintain the revenues of our operating segments (Buildings and Infrastructure) in balance as this helps disperse risks and provides better opportunities for continuing construction operations also in stressed circumstances where one segment experiences noticeable shrinkage.

Nordecon's revenues for the first nine months of 2015 totalled 113,553 thousand euros, 6.1% down from the 120,936 thousand euros generated in the same period in 2014. Revenue declined in both of the main operating segments. In the Buildings segment, the decrease resulted from lower volumes in the industrial and warehouse facilities sub-segment. In other sub-segments, revenues grew. In the Infrastructure segment, revenue continued to be supported by slight year on year growth in road construction volumes. Unfortunately, our engineering sub-segments have not seen the growth that was anticipated.

The segments' revenues for the first nine months of 2015 were 70,944 thousand euros for Buildings and 39,789 thousand euros for Infrastructure. The corresponding figures for the first nine months of 2014 were 76,690 thousand euros and 40,951 thousand euros (see note 8). The Group's order book has a similar structure: at the end of the nine-month period 73% of contracts secured but not yet performed (in terms of value) were in the portfolio of the Buildings segment (9M 2014: 70%).

Operating segments*	9M 2015	9M 2014	9M 2013	2014
Buildings	61%	63%	38%	65%
Infrastructure	39%	37%	62%	35%

* 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 are allocated in both parts of the interim report based on the nature of the work.



Sub-segment revenues

Compared with the same period last year, the revenue structure of the Buildings segment has changed considerably. The contribution of the industrial and warehouse facilities sub-segment has contracted sharply while the contributions of other sub-segments have increased. The largest contributor is still the commercial buildings sub-segment.

The largest ongoing projects of the commercial buildings sub-segment are the Veerenni office building and the Arsenal Centre in Tallinn. Construction of the Löötsa and Eesti Loto business buildings has reached the final phase. In June, we completed the reconstruction of Estonia Spa in Pärnu and in August the construction of Viimsi Centre. We expect the private sector's investment activity to continue and the contribution of the sub-segment to remain at a similar or higher level throughout the year.

In the industrial and warehouse facilities sub-segment volumes have declined due to a decrease in both agricultural projects, which used to dominate the sub-segment for a long time thanks to EU support, and warehouse and logistics facility projects. We do not expect the revenues of the sub-segment to increase substantially in the current year.

The volumes of the public buildings sub-segment have grown mainly through the state's increasing investment in national defence. During the period, we completed and delivered on time the building of the Võru state secondary school and the work done on the premises of the Kuperjanov infantry battalion. In addition, we continued building the Piusa border guard station and a building complex at the Ämari air base, and began the design and construction of a barracks at the Tapa military base.

We earned most of our apartment building revenue as a general contractor. The period's main revenue contributors were the apartment building at Kentmanni põik 3 and phase II of the Tondi residential quarter in Tallinn whose construction started last year. In the current year, we began building phase III of the Tondi residential quarter and phases I and II of Pikksilma homes in Kadriorg, Tallinn. The contribution of our own development projects in Tartu and Tallinn continues to increase. In the first two development phases of the Tammelin project in Tartu we have completed 3 apartment buildings. Sales have been very successful: by the end of the reporting period, 45 of the 55 apartments had been either sold or reserved. We have started preparations for phase III that comprises a building with 20 apartments (www.tammelinn.ee). In Tallinn, we continue to sell apartment ownerships in phases I and II and build phase III of our Magasini 29 development project (www.magasini.ee). By the end of the period, 7 of the 13 apartment ownerships in phases I and II had been sold.

Revenue distribution in Buildings segment	9M 2015	9M 2014	9M 2013	2014
Commercial buildings	56%	43%	47%	42%
Industrial and warehouse facilities	11%	37%	29%	33%
Public buildings	13%	6%	20%	7%
Apartment buildings	20%	14%	4%	18%

Similarly to the two previous years, in the first nine months of 2015 the main revenue source in the Infrastructure segment was road construction. We continued work on two major road construction projects in Tartu (construction package 5 of the Tartu western bypass) and Keila (Keila-Valkse section of national road no. 8 Tallinn-Paldiski, km 24.9-29.5) and started numerous smaller road repair projects whose total volume is substantial. The more important ones include surface dressing in Võru and Põlva counties and reconstruction of the Tartu-Märja road. Compared with the previous year, the volume of road construction for the private sector has increased (e.g., ETK logistics centre). In addition, Nordecon continues to deliver road maintenance services in the Järva and Hiiumaa counties and the Keila maintenance area. We expect that road construction will remain the main revenue source in the Infrastructure segment through 2015 and that similarly to last year most of the work will be done under small or medium-sized reconstruction and repair contracts.

In specialist engineering, we did small-scale port construction work on the island of Hiiumaa. Investments in hydraulic engineering as well as our relevant revenue have declined in recent years and we do not expect to secure any large hydraulic engineering projects in the near term. The revenues of the sub-segment may increase through other complex engineering projects but their addition is likely to be irregular.

Shrinkage in support granted from the EU structural funds continues to have a strong impact on environmental engineering whose volumes have decreased more rapidly than those of other sub-segments. The contracts



secured by other engineering sub-segment (utility network construction) are small and growth of the sub-segment is unlikely.

Revenue distribution in Infrastructure segment	9M 2015	9M 2014	9M 2013	2014
Road construction and maintenance	82%	74%	56%	72%
Specialist engineering (including hydraulic engineering)	1%	3%	8%	2%
Other engineering	13%	15%	24%	19%
Environmental engineering	4%	8%	12%	7%

Order book

At 30 September 2015, the Group's order book (backlog of contracts signed but not yet performed) stood at 76,261 thousand euros. In the third quarter, a substantial volume of new construction contracts was secured and the order book grew slightly compared with 30 June 2015 but declined by 18% compared with a year earlier. The order book decreased in both the Buildings and the Infrastructure segment.

	9M 2015	9M 2014	9M 2013	2014
Order book (EUR'000)	76,261	92,455	85,765	83,544

The order book of the commercial buildings sub-segment contracted by around 64% compared with a year ago. Growth in the order books of the public buildings and apartment buildings sub-segments could not counterbalance that shrinkage. Additions to the order book of the public buildings sub-segment include a number of national defence assets whereas the order book of the apartment buildings sub-segment is influenced by the construction of phases I and II of the Pikksilma homes project.

In the Infrastructure segment, the order book of other engineering sub-segment grew slightly but due to the small size of the contracts this did not have a significant impact on the segment's total order book. In other sub-segments order books decreased. Order book weakened the most in the road construction sub-segment where in recent years we have been working on two major road construction projects (construction package 5 of the Tartu western bypass and Keila-Valkse road). We have currently not been able to secure new contracts of a similar size. Investments made with the support of the EU structural funds have not increased to the expected level and it is evident that the new EU budget period (2014-2020) will not have any significant impact on the construction sector in the current year. Hence, we expect that the revenues of the Infrastructure segment will decline in 2015 (for further information, see the *Business risks* section of the chapter *Description of the main risks*).

At the reporting date, contracts secured by the Buildings segment and the Infrastructure segment accounted for 73% and 27% of the Group's order book respectively (30 September 2014: 70% and 30% respectively). The domination of the Buildings segment is typical of the past two years and not likely to change in the near term.

In a situation of stiff competition, we have avoided taking unjustified risks that could realize on the execution of contracts and have an adverse impact on our performance. We prefer to keep costs under control and focus on projects with positive prospects. According to our assessment, in the present situation it is difficult to maintain revenue and profit margins at the level of 2014 without taking unreasonable risks. Therefore, a decline in the second half-year is likely.

Between the reporting date (30 September 2015) and the date of release of this report, Group companies secured additional construction contracts in the region of 14,333 thousand euros. Among other wins, we made successful bids for three road maintenance contracts. In the next five years (2016-2021,) we will continue to provide national road maintenance services in Järva and Hiiu counties and will start delivering the same services also in the Kose maintenance area.



People

Staff and personnel expenses

In the first nine months of 2015, the Group (the parent and the subsidiaries) employed, on average, 699 people including 357 engineers and technical personnel (ETP).

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

	9M 2015	9M 2014	9M 2013	2014
ETP	357	353	361	357
Workers	342	378	405	375
Total average	699	731	766	732

Compared with a year ago, headcount decreased by around 4% through a decline in the number of workers, which resulted from shrinkage in the volume of work performed with own resources. Personnel expenses dropped by around 9%, year over year, through a smaller headcount and lower profitability which reduced performance bonuses. The Group's personnel expenses for the first nine months of 2015 including all taxes totalled 13,056 thousand euros (9M 2014: 14,357 thousand euros).

The service fees of members of the council of Nordecon AS for the first nine months of 2015 amounted to 120 thousand euros and associated social security charges totalled 39 thousand euros (9M 2014: 166 thousand euros and 55 thousand euros respectively).

The service fees of members of the board of Nordecon AS for the first nine months of 2015 amounted to 329 thousand euros and associated social security charges totalled 109 thousand euros (9M 2014: 411 thousand euros and 136 thousand euros respectively).

The fees (also for the comparative period) include the provisions made in the third quarter for performance bonuses that may be paid based on the Group's performance indicators.

Labour productivity and labour cost efficiency

The rise in nominal labour cost efficiency, relative to the same period last year, is attributable to a decrease in headcount and a resulting decline in personnel expenses.

We measure the efficiency of our operating activities using the following productivity and efficiency indicators, which are based on the number of employees and personnel expenses incurred:

	9M 2015	9M 2014	9M 2013	2014
Nominal labour productivity (rolling), (EUR'000)	217.5	218.8	231.6	220.4
Change against the comparative period	-0.6%	-5.5%	8.7%	-4.0%
Nominal labour cost efficiency (rolling), (EUR)	8.2	7.5	9.5	8.0
Change against the comparative period	9.8%	-21.9%	-8.3%	-4.8%

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	32,375,483
Number of listed securities	32,375,483
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

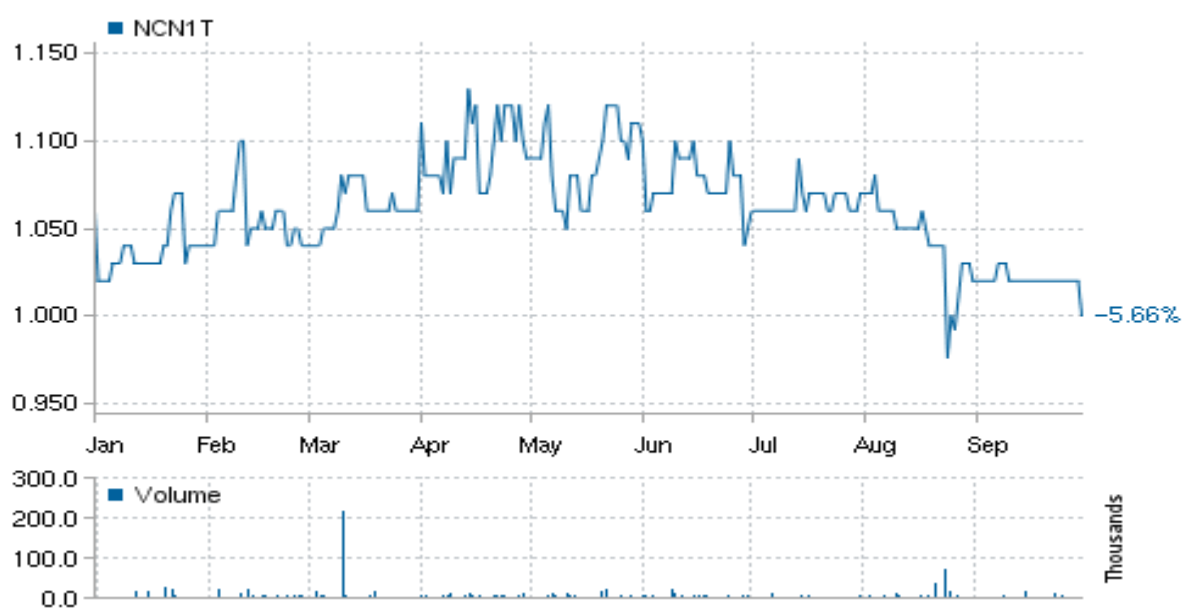
* In connection with Estonia's accession to the euro area on 1 January 2011 and based on amendments to the Estonian Commercial Code that took effect on 1 July 2010 as well as a resolution adopted by the annual general meeting of Nordecon AS in May 2011, the company's share capital was converted from 307,567,280 Estonian kroons to 19,657,131.9 euros. Concurrently with the conversion, the company adopted shares with no par value.

In July 2014, Nordecon AS issued 1,618,755 new shares with a total cost of 1,581,523.64 euros, increasing its share capital by 1,034,573.01 euros to 20,691,704.91 euros, and acquired the same number of own (treasury) shares for the same price. The share capital of Nordecon AS consists of 32,375,483 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.

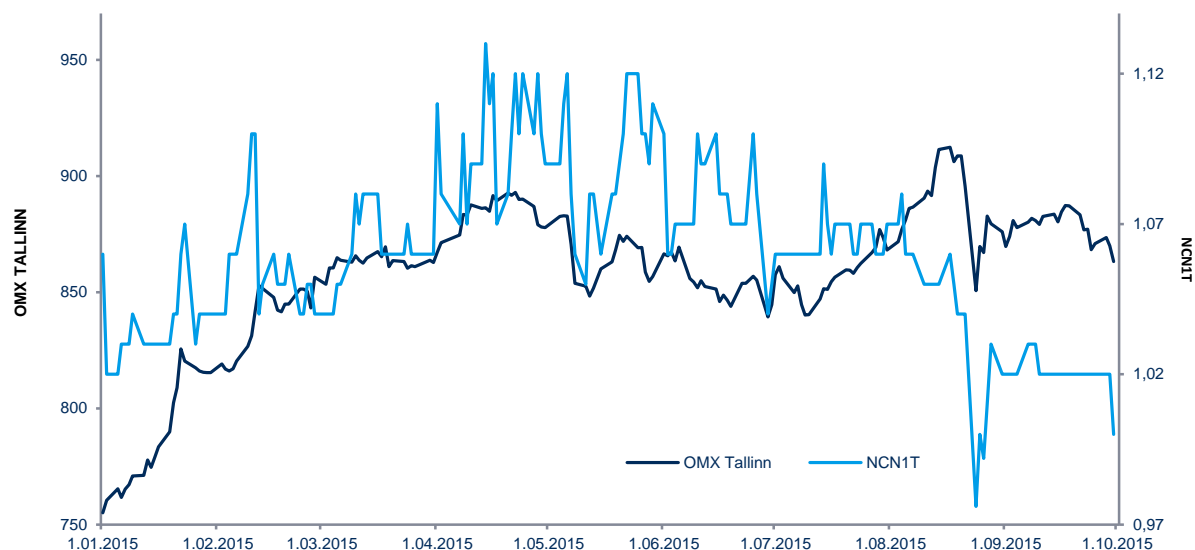
Movements in the price and turnover of the Nordecon AS share in the first nine months of 2015

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 2015



Index/equity	1 January 2015*	30 September 2015	+/-
OMX Tallinn	755.05	863.21	14.32%
NCN1T	EUR 1.06	EUR 1.00	-5.66%

* Closing price on the NASDAQ OMX Tallinn Stock Exchange at 31 December 2014

Summarised trading results

Share trading history (EUR)

Price	9M 2015	9M 2014	9M 2013
Open	1.02	1.05	1.17
High	1.14	1.09	1.29
Low	0.98	0.93	1.00
Last closing price	1.00	1.01	1.07
Traded volume (number of securities traded)	971,467	1,453,387	2,108,144
Turnover, in millions	1.02	1.50	2.46
Listed volume (30 September), in thousands	32,375	32,375	30,757
Market capitalisation (30 September), in millions	32.38	32.70	32.91

Shareholder structure

Largest shareholders of Nordecon AS at 30 September 2015

Shareholder	Number of shares	Ownership interest (%)
AS Nordic Contractors	16,507,464	50.99
Lukusjaht AS	3,435,689	10.61
ING Luxembourg S.A.	2,007,949	6.20
Rondam AS	1,000,000	3.09
SEB Pank AS clients	737,508	2.28
ASM Investments OÜ	519,600	1.60
Ain Tromp	478,960	1.48
State Street Bank and Trust Omnibus Account A Fund	447,365	1.38
SEB Elu- ja Pensionikindlustus AS	257,000	0.79
Genadi Bulatov	250,600	0.77



Shareholder structure of Nordecon AS at 30 September 2015

	Number of shareholders	Ownership interest (%)
Shareholders with interest exceeding 5%	3	67.80
Shareholders with interest from 1% to 5%	5	9.83
Shareholders with interest below 1%	1,642	17.37
Holder of own (treasury) shares	1	5.00
Total	1,651	100

Shares controlled by members of the council of Nordecon AS at 30 September 2015

Council member		Number of shares	Ownership interest (%)
Toomas Luman (AS Nordic Contractors, OÜ Luman ja Pojad)*	Chairman of the Council	16,579,144	51.21
Andri Hõbemägi	Member of the Council	50,000	0.15
Vello Kahro	Member of the Council	10,000	0.03
Sandor Liive	Member of the Council	0	0.00
Meelis Milder	Member of the Council	0	0.00
Total		16,639,144	51.39

* Companies controlled by the individual

Shares controlled by members of the board of Nordecon AS at 30 September 2015

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	0.10
Erkki Suurorg	Member of the Board	0	0.00
Total		70,243	0.22

* Companies controlled by the individual

Share option plan

The annual general meeting that convened on 27 May 2014 approved a share option plan aimed at motivating the executive management of Nordecon AS by including them among the company's shareholders to ensure consistency in the company's management and improvement of the company's performance, and enable the executive management to benefit from their contribution to growth in the value of the company's share. Under the share option plan, the company has granted options for acquiring up to 1,618,755 shares in Nordecon AS. In line with the plan, the chairman of the board of Nordecon AS may acquire up to 291,380 shares, both members of the board may acquire up to 259,000 shares each and all other members of the executive staff may acquire up to 129,500 shares each. An option may be exercised when three years have passed since the signature of the option agreement but not before the company's general meeting has approved the company's annual report for 2016. In the case of members of the company's board, exercise of the options is linked to achievement of the Group's EBITDA target for 2016 (from 4,491 thousand euros to 11,228 thousand euros).

To satisfy the terms and conditions of the option plan, in July 2014 Nordecon AS issued a total of 1,618,755 new shares with a total cost of 1,581,523.64 euros, increasing share capital by 1,034,573.01 euros to 20,691,704.91 euros, and acquired the same number of own (treasury) shares at the same price.



Changes in the council of Nordecon AS

In connection with the expiry of the term of office of five members of the council of Nordecon AS, the annual general meeting that convened on 20 May 2015 elected new members of the council for the term specified in the articles of association (five years). Toomas Luman, Meelis Milder, and Andri Hõbemägi whose term of office will end in 2018 will continue as members of the council. Vello Kahro and Sandor Liive were elected as new members of the council.

Vello Kahro has graduated from the University of Tartu, faculty of Economics, with higher education in Economics. He has been working for Nordecon AS and its parent AS Nordic Contractors since 1989. From 2012 to 2015, Vello Kahro was a member of the audit committee of Nordecon AS. Vello Kahro is a member of the board of OÜ Kaarlaid, OÜ Niverito and OÜ Niveraalis and a member of the council of Arealis AS.

Sandor Liive has graduated from Tallinn University of Technology, faculty of Economics, with higher education in Economics. From 1992 to 1995, he was on the board of Uus Maa OÜ. From 1995 to 1998 he was head of finance department and director of finance and from 1996 to 1998 also a member of the board of Tallinna Sadam AS. From 1998, Sandor Liive started working for Eesti Energia AS, first as director of finance and a member of the board and later, from 1 December 2005 until 30 November 2014, as chairman of the board.



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.

Competition is fierce in all segments of the construction market. In 2015 public sector investment is not likely to grow substantially compared with 2014 as was expected in the comparative period. There is strong competitive pressure on builders' bid prices in a situation where input prices have not decreased noticeably. Competition is particularly aggressive in general building and utility network construction. 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 cannot be lowered significantly and competition is fierce is risky because negative developments in the economy may quickly render the contract onerous. Thus, in price-setting we currently prioritize a reasonable balance of contract performance risks and tight cost control over plain revenue growth.

Demand for construction services continues to be strongly influenced by the volume of public sector investment, which in turn depends on the co-financing received from the EU structural funds. Total support allocated to Estonia during the current EU budget period (2014-2020) amounts to 5.9 billion euros, exceeding the figure of the previous financial framework, but the amounts earmarked for construction work are substantially smaller. The reporting period shows unequivocally that these allocations are not going to have an impact on the construction sector in 2015. Instead, their effect is going to emerge later.

In the light of the above factors, we do not expect year-over-year business growth in 2015. It is probable that the volumes of the Infrastructure segment will shrink but the decline should be counterbalanced by increasing activity in the Buildings segment. Our action plan foresees redirecting our resources (including some of the labour of the Infrastructure segment) to increasing the share 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 companies that operate in one narrow (and in the current market situation particularly some infrastructure) segment.

The Group's business is also influenced by the fact that construction operations are seasonal. The impacts of seasonal fluctuations 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. Our business strategy is to counteract seasonal fluctuations in infrastructure operations with building construction that is less exposed to seasonality. Thus, our long-term goal is to keep the two segments in balance (see also the chapter *Performance by business line*). In addition, where possible, our companies implement appropriate technical solutions that allow working efficiently also in 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 2015, the Group's warranty provisions (including current and non-current ones) totalled 880 thousand euros. The figure for the comparative period was 1,096 thousand euros.

In addition to managing the 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

During the period, the Group did not incur any credit losses. The credit risk exposure of the Group's receivables continued to be low because the share of public sector customers is significant and the customers' settlement behaviour is monitored on an ongoing basis. The main indicator of the realization 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 2015, the Group did not incur any impairment losses on receivables (9M 2014: 10 thousand euros).

Liquidity risk

The Group remains exposed to higher than usual liquidity risk resulting from a mismatch between the long settlement terms demanded by customers (mostly 30 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 1.07-fold (30 September 2014: 1.05-fold). The key factors which influence the current ratio are classification of the Group's loans to its Ukrainian associates as non-current assets and the banks' general policy not to refinance interest-bearing liabilities for a period exceeding twelve months.

The political situation in Ukraine remains tense and we believe that realization of our Ukrainian investment properties may take longer than originally expected. Accordingly, at the reporting date the Group's loan receivables from its Ukrainian associates of 11,148 thousand euros were classified as non-current assets.

At period-end, interest-bearing liabilities accounted for a significant share of our current liabilities. In accordance with IFRS EU, loan commitments have to be classified into current and non-current liabilities based on contract terms in force at the reporting date. To date, banks have generally 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 the reporting date, the Group's cash and cash equivalents totalled 6,558 thousand euros (30 September 2014: 7,704 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. The Group's interest-bearing liabilities have decreased by 1,498 thousand compared with the same period last year. Current and non-current bank loans have decreased by 3,284 thousand euros while factoring and finance lease liabilities have increased. The Group uses factoring to counteract the difference in settlement terms agreed with customers and subcontractors (see also the chapter *Liquidity risk*). At 30 September 2015, the Group's interest-bearing loans and borrowings totalled 28,874 thousand euros (30 September 2014: 30,372 thousand euros). Interest expense for the first nine months of 2015 amounted to 585 thousand euros, a decrease of 177 thousand euros compared with the same period in 2014.

The main source of the Group's interest rate risk is a possible rise in the base rate of floating interest rates (EURIBOR, EONIA or the creditor's own base rate). In the light of the Group's relatively heavy loan burden this would cause a significant increase in interest expense, which would have an adverse impact on profit. We mitigate the risk by pursuing a policy of entering, where possible, into fixed-rate contracts when the market interest rates are low. As regards loan products offered by banks, observance of the policy has proved difficult and most new contracts have a floating interest rate. The Group does not use derivatives to hedge its interest rate risk.

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 Ukrainian hryvnias (UAH).



The hryvnia has been weakening because the political and economic environment in Ukraine continues to be strained due to the differences between Ukraine and Russia which emerged at the beginning of 2014 and at the beginning of 2015 the National Bank of Ukraine decided to discontinue determination of the national currency's indicative exchange rate. In the first nine months of 2015, the hryvnia weakened against the euro by around 20%. For the Group's Ukrainian subsidiaries, this meant additional foreign exchange losses on the translation of their euro-denominated loan commitments into the local currency. Relevant exchange losses totalled 375 thousand euros (9M 2014: 817 thousand euros). Exchange gains and losses on financial instruments are reported within *Finance income* and *Finance costs* in the statement of comprehensive income. Translation of receivables and liabilities from operating activities did not give rise to any exchange gains or losses.

The reciprocal receivables and liabilities of the Group's Ukrainian and non-Ukrainian entities which are connected with the construction business and denominated in hryvnias do not give rise to exchange losses. Nor do the loans provided to the Group's Ukrainian associates in euros give rise to exchange losses that ought to be recognised in the Group's statement of comprehensive income.

The Group has not acquired derivatives to hedge its currency risk.



Outlooks of the Group's geographical markets

Estonia

Processes and developments characterising the Estonian construction market

- In 2015, public sector investments will not grow significantly and the extent to which they can be realised is still unclear. Although in the 2014-2020 EU budget period the support allocated to Estonia will increase to 5.9 billion euros (2007-2013: 4.6 billion euros), the share of support that will influence the construction market will not increase. Instead, compared with the previous period, there will be a rise in allocations to intangible areas.
- Investments made by the largest public sector customers (e.g., state-owned real estate company Riigi Kinnisvara AS and National Road Administration) that reach signature of a construction contract in 2015 will not increase significantly and may be postponed to 2016. As a result, the Estonian construction market (particularly infrastructure construction segments) will remain in relative stagnation. To some extent, the situation will be improved by the positive level of private sector investment in building construction.
- The long and painful construction market consolidation will continue, although slowly. In particular, this applies to general contracting in building construction where the number of medium-sized operators (annual turnover of around 15-40 million euros) is too large. Based on recent years' experience it is likely that stiff competition and insufficient demand will cause some general contractors to go slowly out of business or shrink in size rather than merge or exit the market. According to our assessment, in recent years the process has been slowed down by the customers' (particularly public sector customers') increasing desire to apply less stringent tendering requirements to increase competition and lower the price even though this increases the risks related to collateral, quality, adherence to deadlines and builder's liability.
- Competition will increase in all segments of the construction market. The average number of bidders for a contract has increased and there is a wide gap between the lowest bids made by winners and the average bids. The situation is somewhat similar to 2009 when expectations of shrinkage in demand prompted a fall in construction prices, which triggered a slide in the prices of many construction inputs. However, currently we do not see any noticeable downshift in input prices and companies that are banking on this in the bidding phase may run into difficulty. Stiff competition is putting pressure on contract prices and, thus, also profit margins.
- In new housing development, the success of a project depends on the developer's ability to control the input prices included in the business plan and, thus, set affordable sales prices. 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 to the standard of living and the banks' lending terms remain strict. Similarly to previous periods, successful projects include those that create or fill a niche.
- There is an increasing contrast between the stringent terms of public sector contracts, which impose on the builder extensive obligations, strict sanctions, various financial guarantees, long settlement terms, etc., and modest tendering requirements. Low qualification requirements and the precondition of making a low bid have made it easier for builders to win a contract but have heightened the risks taken by customers in respect of contract performance and delivery.
- The prices of construction inputs will remain relatively stable. For a short term, shrinkage in demand may lower local subcontracting prices. However, taking into account subcontractors' financial and human resources, the decline cannot be large or long-lasting. In some areas, price fluctuations will be unpredictable and may, thus, be greater and hard or even impossible to influence (oil and metal products, certain materials and equipment).
- Shortage of skilled labour (including project and site managers) will persist but this will weaken the quality of the construction process/service rather than the companies' performance capabilities. Shrinkage in the Estonian construction volumes may increase labour supply but not substantially. Labour migration to the Nordic countries will remain steady and even though Nordic construction volumes (particularly in Finland) will decline as well, the number of job seekers that will return will not increase considerably. This sustains pressure for a wage increase.

Latvia and Lithuania

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 2015 it will probably be adversely affected by a slowdown in public sector demand. Accordingly, it is unlikely that we will enter the Latvian construction market permanently in 2015.



In the near term we may undertake some projects in Latvia through our Estonian entities, involving partners where necessary. Undertaking a project assumes that it can be performed profitably. The decision does not change our strategy for the future, i.e., the goal to operate in our neighbouring construction markets through local subsidiaries.

The operations of the Group's Lithuanian subsidiary, Nordecon Statyba UAB, have been suspended. We monitor the market situation and may resume operations in the next few years because developments in the Lithuanian construction market have been quite positive in the Baltic context. 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 goal to operate in the Lithuanian construction market through local subsidiaries.

Ukraine

In Ukraine, we prefer to provide general contracting and project management services to foreign private sector customers in the segment of building construction. However, due to the market situation, we have also signed contracts with local investors where the terms have not involved any unreasonable or uncontrollable risks. The unstable political and economic situation hinders adoption of business decisions but construction activity in Kiev has not halted. In 2015, the Group will continue its business in the Kiev region and our current Ukrainian order book is larger than a year ago. Despite the armed conflict in eastern Ukraine, for Nordecon the market situation in Kiev has not deteriorated compared with a year or two ago. Hard times have reduced the number of inefficient local (construction) companies and when the economy normalises we will have much better prospects for increasing our operations and profitability. We monitor the situation in the Ukrainian construction market closely and consistently and are ready to restructure our operations as and when necessary. Should the crisis spread to Kiev (currently highly unlikely), we can suspend our operations immediately. We continue to seek opportunities for exiting our two real estate projects that have been put on hold or signing a construction contract with a prospective new owner.

Finland

In Finland, we offer mainly subcontracting services in the concrete works segment but based on experience gained, have also started to perform some more complex works. The local concrete works market allows competing for projects where the customer wishes to source all concrete works from one reliable partner. Our policy is to maintain a rational approach and avoid taking excessive risks. At present, we are not planning to penetrate any other segments of the Finnish construction market (general contracting, project management, etc.).

Sweden

In 2015, Nordecon started preparations for potential expansion into the Swedish market. We are planning to offer construction of residential and non-residential buildings, particularly in central Sweden. To begin construction activity, in July 2015 we acquired 100% of ownership interest in SWENCN AB, a company registered in the Kingdom of Sweden. In October, the first contract for construction of a five-storey apartment building in Stockholm was concluded. The cost of the work amounts to around 8.4 million euros.



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 significant transactions with related parties.

Jaano Vink

Chairman of the Board

5 November 2015

Avo Ambur

Member of the Board

5 November 2015

Erkki Suurorg

Member of the Board

5 November 2015



Condensed consolidated interim financial statements

Condensed consolidated interim statement of financial position

EUR'000	Note	30 September 2015	31 December 2014
ASSETS			
Current assets			
Cash and cash equivalents		6,558	8,802
Trade and other receivables	2	31,941	23,235
Prepayments		1,861	1,201
Inventories	3	24,753	24,788
Total current assets		65,113	58,026
Non-current assets			
Investments in equity-accounted investees		830	694
Other investments		26	26
Trade and other receivables	2	11,788	11,211
Investment property		3,549	3,549
Property, plant and equipment	4	9,814	9,319
Intangible assets	4	14,648	14,633
Total non-current assets		40,655	39,432
TOTAL ASSETS		105,768	97,458
LIABILITIES			
Current liabilities			
Loans and borrowings	5, 6	23,566	20,588
Trade payables		29,260	26,267
Other payables		6,137	7,542
Deferred income		1,606	1,786
Provisions		415	799
Total current liabilities		60,984	56,982
Non-current liabilities			
Loans and borrowings	5, 6	5,308	3,145
Trade payables		109	109
Other payables		108	96
Provisions		1,247	759
Total non-current liabilities		6,772	4,109
TOTAL LIABILITIES		67,756	61,091
EQUITY			
Share capital		20,692	20,692
Own (treasury) shares		-1,582	-1,582
Share premium		547	547
Statutory capital reserve		2,554	2,554
Translation reserve		1,160	771
Retained earnings		13,273	11,714
Total equity attributable to owners of the parent		36,644	34,696
Non-controlling interests		1,368	1,671
TOTAL EQUITY		38,012	36,367
TOTAL LIABILITIES AND EQUITY		105,768	97,458



Condensed consolidated interim statement of comprehensive income

EUR'000	Note	9M 2015	Q3 2015	9M 2014	Q3 2014	2014
Revenue	8, 9	113,553	44,342	120,936	53,492	161,289
Cost of sales	10	-107,252	-41,112	-112,145	-48,913	-151,476
Gross profit		6,301	3,230	8,791	4,579	9,813
Marketing and distribution expenses		-274	-52	-420	-76	-558
Administrative expenses	11	-3,418	-1,203	-4,006	-1,535	-5,656
Other operating income	12	289	36	270	129	792
Other operating expenses	12	-83	0	-256	-225	-376
Operating profit		2,815	2,011	4,379	2,872	4,015
Finance income	13	491	166	486	160	738
Finance costs	13	-965	-303	-1,581	-359	-2,301
Net finance costs		-474	-137	-1,095	-199	-1,563
Share of profit of equity-accounted investees		233	200	208	186	85
Profit before income tax		2,574	2,074	3,492	2,859	2,537
Income tax		-257	0	-242	-63	-239
Profit for the period		2,317	2,074	3,250	2,796	2,298
Other comprehensive income						
Items that may be reclassified subsequently to profit or loss						
Exchange differences on translating foreign operations		389	58	721	-89	1,069
Total other comprehensive income/expense		389	58	721	-89	1,069
TOTAL COMPREHENSIVE INCOME		2,706	2,132	3,971	2,707	3,367
Profit attributable to:						
- Owners of the parent		2,482	2,085	2,607	2,386	1,956
- Non-controlling interests		-165	-11	643	410	342
Profit for the period		2,317	2,074	3,250	2,796	2,298
Total comprehensive income attributable to:						
- Owners of the parent		2,871	2,143	3,328	2,297	3,025
- Non-controlling interests		-165	-11	643	410	342
Total comprehensive income for the period		2,706	2,132	3,971	2,707	3,367
Earnings per share attributable to owners of the parent:						
Basic earnings per share (EUR)	7	0.08	0.07	0.08	0.08	0.06
Diluted earnings per share (EUR)	7	0.08	0.07	0.08	0.08	0.06



Condensed consolidated interim statement of cash flows

EUR'000	Note	9M 2015	9M 2014
Cash flows from operating activities			
Cash receipts from customers ¹		127,440	131,291
Cash paid to suppliers ²		-112,650	-118,250
VAT paid		-2,990	-3,907
Cash paid to and for employees		-15,373	-14,618
Income tax paid		-109	-177
Net cash used in operating activities		-3,682	-5,661
Cash flows from investing activities			
Acquisition of property, plant and equipment		-414	-284
Acquisition of intangible assets		0	-14
Proceeds from sale of property, plant and equipment	4	238	185
Acquisition of a subsidiary		-8	-719
Cash acquired on acquisition of a subsidiary		9	0
Acquisition of investments in associates		-1	0
Cash from liquidation of investments in associates		0	1
Loans provided		-97	-275
Repayment of loans provided		67	106
Dividends received		108	4
Interest received		7	4
Net cash used in investing activities		-91	-992
Cash flows from financing activities			
Proceeds from loans received		7,124	10,551
Repayment of loans received		-2,615	-5,887
Payment of finance lease liabilities		-1,309	-1,110
Interest paid		-580	-654
Dividends paid		-1,091	-940
Other payments made		0	-175
Net cash from financing activities		1,529	1,785
Net cash flow		-2,244	-4,868
Cash and cash equivalents at beginning of period		8,802	12,575
Effect of movements in foreign exchange rates		0	-3
Decrease in cash and cash equivalents		-2,244	-4,868
Cash and cash equivalents at end of period		6,558	7,704

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							Non-controlling interests	Total
	Share capital	Treasury shares	Capital reserve	Share premium	Translation reserve	Retained earnings	Total		
Balance at 31 December 2013	19,657	0	2,554	0	-298	10,681	32,594	2,332	34,926
Increase of share capital	1,035	-1,582	0	547	0	0	0	0	0
Profit for the period	0	0	0	0	0	2,627	2,627	643	3,270
Other comprehensive income	0	0	0	0	721	0	721	0	721
Change in non-controlling interests	0	0	0	0	0	0	0	-493	-493
Transactions with owners									
Dividend distribution	0	0	0	0	0	-923	-923	-81	-1,004
Total transactions with owners	0	0	0	0	0	-923	-923	-81	-1,004
Balance at 30 September 2014	20,692	-1,582	2,554	547	423	12,385	35,019	2,401	37,420
Balance at 31 December 2014	20,692	-1,582	2,554	547	771	11,714	34,696	1,671	36,367
Profit for the period	0	0	0	0	0	2,482	2,482	-165	2,317
Other comprehensive income	0	0	0	0	389	0	389	0	389
Transactions with owners									
Dividend distribution	0	0	0	0	0	-923	-923	-138	-1,061
Total transactions with owners	0	0	0	0	0	-923	-923	-138	-1,061
Balance at 30 September 2015	20,692	-1,582	2,554	547	1,160	13,273	36,644	1,368	38,012



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 50.99% 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 2015 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 2014.

The Group has not changed its significant accounting policies compared with the consolidated financial statements as at and for the year ended 31 December 2014. 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 third quarter and first nine months of 2015 give a true and fair view of the Group's financial performance and the parent and all its subsidiaries that are included in the financial statements are going concerns. The condensed consolidated interim financial statements have not been audited or otherwise checked by auditors and contain only the consolidated financial statements of the Group.

NOTE 2. Trade and other receivables

EUR'000	Note	30 September 2015	31 December 2014
Current items			
Trade receivables		16,405	13,435
Retentions receivable		1,101	858
Receivables from related parties	14	49	2
Loans to related parties	14	2,256	2,116
Miscellaneous receivables		1,296	1,505
Total receivables and loans provided		21,107	17,916
Due from customers for contract work		10,834	5,319
Total current trade and other receivables		31,941	23,235

EUR'000	Note	30 September 2015	31 December 2014
Non-current items			
Loans to related parties	14	11,148	10,768
Miscellaneous non-current receivables		640	443
Total non-current trade and other receivables		11,788	11,211

NOTE 3. Inventories

EUR'000	30 September 2015	31 December 2014
Raw materials and consumables	4,219	3,963
Work in progress	5,312	4,192
Goods for resale and properties held for development	13,590	13,718
Finished goods	1,632	2,915
Total inventories	24,753	24,788



NOTE 4. Property, plant and equipment and intangible assets

Property, plant and equipment

In the first nine months of 2015, the Group acquired property, plant and equipment of 1,943 thousand euros (9M 2014: 1,342 thousand euros). The period's additions consisted of equipment and construction machinery required for the Group's operating activities.

Proceeds from sale of property, plant and equipment totalled 238 thousand euros (see the statement of cash flows) and sales gain on the transactions amounted to 228 thousand euros (note 12).

Intangible assets

In the first nine months of 2015, the Group did not conduct any significant transactions with intangible assets.

NOTE 5. Loans and borrowings

Current loans and borrowings

EUR'000	Note	30 September 2015	31 December 2014
Current portion of long-term loans		5,567	8,586
Current portion of finance lease liabilities	6	1,503	1,211
Short-term bank loans		13,576	7,938
Factoring liabilities		2,920	2,853
Total current loans and borrowings		23,566	20,588

Non-current loans and borrowings

EUR'000	Note	30 September 2015	31 December 2014
Non-current portion of long-term bank loans		1,968	102
Non-current portion of finance lease liabilities	6	3,340	3,043
Total non-current loans and borrowings		5,308	3,145

NOTE 6. Finance and operating leases

EUR'000	30 September 2015	31 December 2014
Finance lease liabilities at end of reporting period	4,843	4,254
Of which payable not later than 1 year	1,503	1,211
Of which payable later than 1 year and not later than 5 years	3,340	3,043
Base currency EUR	4,843	4,254
Interest rates of contracts denominated in EUR ¹	2.0%-5.2%	2.0%-5.2%
Frequency of payments	Monthly	Monthly

¹ Includes leases with floating interest rates

Finance lease payments

EUR'000	9M 2015	9M 2014
Principal payments made during the period	1,308	1,110
Interest payments made during the period	109	100

Operating lease payments

EUR'000	9M 2015	9M 2014
Payments made for cars	607	488
Payments made for construction equipment	1,452	1,990
Payments made for premises	410	456
Payments made for software	131	199
Total operating lease payments	2,600	3,133



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 2015	9M 2014
Profit for the period attributable to owners of the parent	2,482	2,607
Weighted average number of shares (in thousands)	30,757	30,757
Basic earnings per share (EUR)	0.08	0.08
Diluted earnings per share (EUR)	0.08	0.08

During the period, Nordecon AS had no dilutive share options. Thus, 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)

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 in 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). Items after the gross profit of an operating segment (including marketing and distribution expenses, administrative expenses, interest expense, and income tax expense) are not used by the chief operating decision maker to assess the performance of the segment.

Nine months

EUR'000	Buildings EU	Buildings UKR	Infrastructure EU	Other segments	Total
9M 2015					
Total revenue	67,795	3,149	39,872	3,817	114,633
Inter-segment revenue	0	0	-83	-1,572	-1,655
Revenue from external customers	67,795	3,149	39,789	2,245	112,978
Gross profit/loss of the segment	3,755	47	3,572	-159	7,215



EUR'000 9M 2014	Buildings EU	Buildings UKR	Infrastructure EU	Other segments	Total
Total revenue	74,617	2,119	41,321	4,396	122,453
Inter-segment revenue	-46	0	-370	-1,850	-2,266
Revenue from external customers	74,571	2,119	40,951	2,546	120,187
Gross profit of the segment	6,240	62	3,188	215	9,705

Third quarter

EUR'000 Q3 2015	Buildings EU	Buildings UKR	Infrastructure EU	Other segments	Total
Total revenue	20,815	974	21,294	2,036	45,119
Inter-segment revenue	0	0	-49	-915	-964
Revenue from external customers	20,815	974	21,245	1,121	44,155
Gross profit of the segment	844	51	2,582	30	3,507

EUR'000 Q3 2014	Buildings EU	Buildings UKR	Infrastructure EU	Other segments	Total
Total revenue	27,629	1,274	23,129	1,856	53,888
Inter-segment revenue	-39	0	-114	-655	-808
Revenue from external customers	27,590	1,274	23,015	1,201	53,080
Gross profit of the segment	2,229	24	2,302	272	4,827

Reconciliation of segment revenues

EUR'000	9M 2015	Q3 2015	9M 2014	Q3 2014
Total revenues for reportable segments	110,816	43,083	118,057	52,033
Revenue for other segments	3,817	2,036	4,396	1,856
Elimination of inter-segment revenues	-1,655	-964	-2,266	-808
Unallocated revenue	575	187	749	412
Total consolidated revenue	113,553	44,342	120,936	53,492

Reconciliation of segment profit

EUR'000	9M 2015	Q3 2015	9M 2014	Q3 2014
Total profit for reportable segments	7,374	3,477	9,490	4,555
Total profit/loss for other segments	-159	30	215	272
Elimination of inter-segment profits and losses	-15	-4	-12	-4
Unallocated losses	-899	-273	-902	-244
Consolidated gross profit	6,301	3,230	8,791	4,579
Unallocated expenses:				
Marketing and distribution expenses	-274	-52	-420	-76
Administrative expenses	-3,418	-1,203	-4,006	-1,535
Other operating income and expenses	206	36	14	-96
Consolidated operating profit	2,815	2,011	4,379	2,872
Finance income	491	166	486	160
Finance costs	-965	-303	-1,581	-359
Share of profit of equity-accounted investees	233	200	208	186
Consolidated profit before tax	2,574	2,074	3,492	2,859



NOTE 9. Segment reporting – geographical information

EUR'000	9M 2015	Q3 2015	9M 2014	Q3 2014
Estonia	109,286	43,093	113,971	51,537
Ukraine	3,149	974	2,119	1,274
Finland	1,118	275	5,070	897
Inter-segment revenue	0	0	-224	-216
Total revenue	113,553	44,342	120,936	53,492

NOTE 10. Cost of sales

EUR'000	9M 2015	9M 2014
Cost of materials, goods and services	94,540	98,669
Personnel expenses	11,126	12,022
Depreciation and amortisation expense	1,352	1,340
Other expenses	234	114
Total cost of sales	107,252	112,145

NOTE 11. Administrative expenses

EUR'000	9M 2015	9M 2014
Personnel expenses	1,930	2,335
Cost of materials, goods and services	1,381	1,574
Depreciation and amortisation expense	20	12
Other expenses	87	85
Total administrative expenses	3,418	4,006

NOTE 12. Other operating income and expenses

EUR'000	9M 2015	9M 2014
Other operating income		
Gain on sale of property, plant and equipment	228	194
Other income	61	76
Total other operating income	289	270

EUR'000	9M 2015	9M 2014
Other operating expenses		
Loss on sale of property, plant and equipment	47	1
Impairment loss on goodwill	0	128
Net loss on recognition and reversal of impairment losses on receivables	0	10
Other expenses	36	117
Total other operating expenses	83	256

NOTE 13. Finance income and costs

EUR'000	9M 2015	9M 2014
Finance income		
Interest income on loans	471	476
Other finance income	20	10
Total finance income	491	486



EUR'000	9M 2015	9M 2014
Finance costs		
Interest expense	585	762
Foreign exchange loss	375	817
Other finance costs	5	2
Total finance costs	965	1,581

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 related to them;
- individuals whose shareholding implies significant influence.

Purchase and sales transactions conducted with related parties during the period

EUR'000	9M 2015		9M 2014	
Volume of transactions	Purchases	Sales	Purchases	Sales
AS Nordic Contractors	294	0	253	0
Companies of AS Nordic Contractors group	1	3	2	5
Equity-accounted investees	1,516	52	1,500	17
Companies related to members of the council	426	0	44	0
Total	2,237	55	1,799	22

EUR'000	9M 2015		9M 2014	
Nature of transactions	Purchases	Sales	Purchases	Sales
Construction services	1,942	0	1,500	0
Lease and other services	295	55	299	22
Total	2,237	55	1,799	22

During the period, the Group recognised interest income on loans to associates of 364 thousand euros (9M 2014: 367 thousand euros), on loans to the joint venture of 86 thousand euros (9M 2014: 85 thousand euros) and on a loan to a company of AS Nordic Contractors group of 9 thousand euros (9M 2014: 5 thousand euros).

Receivables from and liabilities to related parties

EUR'000	30 September 2015		31 December 2014	
	Receivables	Liabilities	Receivables	Liabilities
AS Nordic Contractors	0	11	1	9
Companies of AS Nordic Contractors group – loans and interest	259	0	256	0
Associates - receivables	49	1,067	1	1
Associates – loans and interest	11,244	0	10,829	0
Joint venture – loans and interest	1,901	0	1,799	0
Total	13,453	1,078	12,886	10

Remuneration of the council and the board

The service fees of members of the council of Nordecon AS for the first nine months of 2015 amounted to 120 thousand euros and associated social security charges totalled 39 thousand euros (9M 2014: 166 thousand euros and 55 thousand euros respectively).



The service fees of members of the board of Nordecon AS for the first nine months of 2015 amounted to 329 thousand euros and associated social security charges totalled 109 thousand euros (9M 2014: 411 thousand euros and 136 thousand euros respectively).

The fees (also for the comparative period) include the provisions made in the third quarter for performance bonuses that may be paid based on the Group's performance indicators.

NOTE 15. Transactions with shares in subsidiaries

On 6 February 2015 (the date of signature of the entity's memorandum of association), Nordecon AS acquired a 60% stake in SweNCN OÜ (an entity being established).

The core business of SweNCN OÜ is construction of residential and non-residential buildings primarily in central Sweden through a wholly-owned subsidiary established in Sweden. At the date of establishment, the share capital of SweNCN OÜ amounted to 2,500 euros. Nordecon AS made the investment to carry out research and make preparations for a prospective expansion into a new geographical market.

NOTE 16. Litigation and claims

Court judgment on the Group's dispute with Tivoli Arendus OÜ

On 23 April 2015, Harju County Court rendered a judgment in the civil matter of Nordecon AS's action against Tivoli Arendus OÜ for establishment of termination of the contract, recovery of debt and late payment interest and return of the guarantee, and Tivoli Arendus OÜ's counter-action against Nordecon AS for recovery of the contractual penalty and late payment interest or alternatively compensation for damages and associated late payment interest.

The court established that the contract had been terminated in connection with Nordecon AS's withdrawal from the contract and that Tivoli Arendus OÜ did not have the right to realize the bank guarantee of around 1.3 million euros provided by Nordecon AS as security for the construction contract. In addition, the court ordered payment of the debt and late payment interest of around 182 thousand euros to Nordecon AS.

The court dismissed the claims filed in Tivoli Arendus OÜ's counter-action in full. Tivoli Arendus OÜ has filed an appeal against the judgment of the court.

Court judgment on the Group's dispute with Kantauro OÜ

On 26 May 2015, Harju County Court rendered a judgment in the civil matter of Nordecon AS's action against Kantauro OÜ for recovery of debt. Based on an order placed by Kantauro OÜ, Nordecon AS built in Tallinn a shopping centre with a net area 15,000 square metres (Stroomi Keskus). The shopping centre was opened to customers on 4 December 2014 but, regrettably, the developer failed to pay the builder part of the amounts due under the contract. As Kantauro OÜ did not settle its debt despite repeated reminders, Nordecon AS went to court.

Taking into account the fact that Kantauro OÜ had not responded to the action, the court made a judgment by default and satisfied Nordecon AS's claim in full. Kantauro OÜ was ordered to pay Nordecon AS the principal debt of 201 thousand euros and the interest accrued on it by the date the action was filed of 316 thousand euros as well as associated procedure expenses. On 1 May 2015, Kantauro OÜ filed a petition against the judgment by default but on 26 June 2015 the county court issued a ruling by which the petition was denied. Kantauro OÜ has paid Nordecon AS the principal debt and late payment interest as ordered by the court. On 13 July, Kantauro OÜ filed an appeal against the ruling by which its petition was denied to the circuit court. On 31 August 2015, the circuit court annulled the ruling of Harju County Court of 26 June 2015 by which the petition was denied and proceedings were not reopened and referred the case back to the county court for new adjudication on the petition. On 7 September 2015, Harju County Court again denied the petition. On 21 September 2015, Kantauro OÜ filed an appeal against the ruling by which its petition was denied to the circuit court. On 21 October 2015, the circuit court annulled the ruling of Harju County Court of 7 September 2015 by which the petition was denied and



proceedings were not reopened and again referred the case back to the county court for new adjudication on the petition.

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 2015 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 financial reporting standards in force, 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 and other consolidated entities.

Jaano Vink

Chairman of the Board

5 November 2015

Avo Ambur

Member of the Board

5 November 2015

Erkki Suurorg

Member of the Board

5 November 2015