NORDECON

MERGER REPORT

This merger report has been prepared in accordance with the provisions of Section 393 of the Commercial Code of the Republic of Estonia. The merging companies have decided to prepare a joint merger report. The merger report sets out the economic rationale as well as the legal aspects of the merger.

General information on the merging companies

Acquirer: Nordecon International AS
Acquirees: Nordecon Ehitus AS and Nordecon Infra AS

Nordecon International AS (hereinafter NCN), registry number 10099962, is the parent of a construction group listed on the NASDAQ OMX Tallinn Stock Exchange; its share capital amounts to EEK 307,567,280. The controlling shareholder of Nordecon International AS is Nordic Contractors AS which at the date of signature of this report holds 53.67% of the listed shares.

Nordecon Ehitus AS (hereinafter NCE), registry number 10210032, with a share capital of EEK 40,000,000 and Nordecon Infra AS (hereinafter NCI), registry number 10310842, with a share capital of EEK 100,000,000 are subsidiaries of NCN. NCN is the sole (100%) shareholder of both entities.

The combined revenues of NCE and NCI account for a significant portion of the consolidated revenue of the Nordecon International group. NCE and NCI are involved in all major buildings and infrastructure construction sub-segments in the Estonian market.

Buildings	Infrastructure
Commercial buildings	Road construction and maintenance
Industrial and warehouse facilities	Specialist engineering (including hydraulic engineering)
Public buildings	Other engineering
Apartment buildings	Environmental engineering

Circumstances underpinning the merger

Revenues of the acquirees by year:

Year	Nordecon Ehitus	Nordecon Infra	Nordecon International (consolidated)
I HY 2010	-	-	EEK 585 million
2009	EEK 848 million	EEK 947 million	EEK 2,419 million
2008	EEK 660 million	EEK 888 million	EEK 3,868 million
2007	EEK 656 million	EEK 1,131 million	EEK 3,752 million

In 2009, the group's consolidated revenue declined primarily on account of a downturn in NCN's operations in its selected foreign markets. The crisis that hit the global economy dried up the group's Ukrainian, Lithuanian and Latvian revenues and by the middle of 2010 it was clear that the construction sector would not recover swiftly and that in the foreseeable future the group's business volumes in the above markets would remain modest.

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In the group's home market, Estonia, the consequences of the crisis have been similar. According to Statistics Estonia, in the past few years the Estonian construction market has contracted substantially.

The Estonian construction market in 2007-2009, in terms of total value of work completed:

Year	Total value of work completed in the Estonian construction market
2009	EEK 34.8 million
2008	EEK 54.3 million
2007	EEK 59.6 million

The Estonian construction market in 2007-2010, in terms of total value of work completed in the first half-year:

Year	Total value of work completed in the Estonian construction market
I HY 2010	EEK 11.0 million
I HY 2009	EEK 17.1 million
I HY 2008	EEK 26.3 million
I HY 2007	EEK 26.6 million

The roughly two and a half-fold contraction in Estonian construction volumes has caused a steep fall in construction companies' profit margins, inducing them to adopt various cost saving measures. In order to adapt to the slump, since the beginning of 2009 NCN group has harnessed mostly group entities' internal resources for cost-cutting and improving operating efficiency.

Having analysed the underlying trends in the construction sector as well as potential development scenarios (also the implications of the recession experienced by neighbouring Finland in the 1990s), the board of NCN has come to the conclusion that a rapid market recovery in the next few years is unlikely. Accordingly, the group will have to focus on restoring the profitability of its core business in an environment of shrunken business volumes. This assumes, among other things, consistent cost control in combination with other appropriate cost saving measures. In a situation where the group's operating volumes and margins continue to be under pressure and flexibility and the ability to respond swiftly to market developments are becoming increasingly important, the board sees the solution in combining NCE and NCI with the parent NCN. The combined entity will continue operating in Estonia in all the construction sectors the merging entities are involved in, maintaining a balance between buildings and infrastructure in its contract portfolio. As a result of the merger, the intra-group chain of command will become considerably shorter, the executives' areas of responsibility will become clearer and optimisation of the whole structure will yield direct cost benefits. The group intends to complete the merger procedures in 2010.

In view of the above, on 10 September 2010 the board of NCN submitted to the council of NCN a proposal for approving the merger of NCE and NCI with NCN.

In a meeting held on 10 September 2010, the council of NCN resolved to approve the transaction and authorise the board to sign a merger agreement with NCI and NCE. On 13 September 2010, the boards and councils of NCI and NCE adopted similar decisions.

Information on the merger agreement

On 4 October 2010 NCN, NCI and NCE signed a merger agreement under which NCN will merge its subsidiaries NCI and NCE with itself. As a result of the merger, NCE and NCI will be dissolved and their

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legal successor will be NCN who will continue its operations under the business name Nordecon AS. NCI and NCE will be dissolved and their entire property including rights and obligations will transfer to NCN as of the date the merger is entered in the commercial registry of NCN's registered address.

NCN is the sole shareholder of both NCI and NCE. Thus, in accordance with Section 403 Subsection 4 of the Commercial Code, the NCE and NCI shares held by NCN will not be replaced in the course of the merger and they will become invalid as of the date the merger is entered in the commercial registry. Therefore, this merger report does not contain information on the exchange ratio of the shares or the amounts of additional payments and there have been no difficulties related to determining the value of the shares. The share capital of NCN will not be increased in connection with the merger.

The planned merger constitutes intra-group restructuring which under Section 19 Subsection 4 Clause 1 of the Competition Act is not deemed to constitute concentration. Therefore, it will not be necessary to inform the Competition Authority of the merger or to obtain its permission for the transaction.

The rights and obligations arising from the merger agreement will be created when the merger agreement has been approved by the general meeting of the shareholders of NCN and the sole shareholder of NCI and NCE.

In Tallinn on 4 October 2010

Jaano Vink **Chairman of the Board** **Nordecon International AS**	**Erkki Suurorg** **Chairman of the Board** **Nordecon Infra AS**	**Priit Jaagant** **Chairman of the Board** **Nordecon Ehitus AS**

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