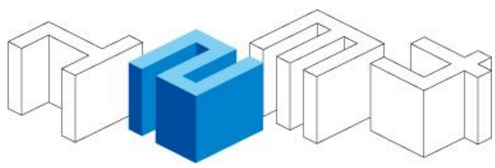
Financial report for the second quarter and first half of 2014
(unaudited)



Financial report for the second quarter and first half of 2014 (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 2014 – 31 December 2014
Reporting period	1 January 2014 – 30 June 2014
Council	Toomas Luman (chairman of the council), Alar Kroodo, Andri Hõbemägi, Tiina Mõis, Meelis Milder, Ain Tromp
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 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 will be equally divided between two segments, building and infrastructure construction, where we will compete in all major sub-segments.
- Our chosen foreign markets are Finland, Ukraine, Latvia and Lithuania. In the first two, we will conduct our business through local subsidiaries. Entering the Latvian and Lithuanian construction markets through local subsidiaries assumes an economic rationale and the earliest time for this will be 2015. Where economic rationale exists, we may also deliver construction services in our neighbouring countries (Latvia, Lithuania and Sweden) on a project basis.
- We will focus on our own real estate development operations in Estonia (in Tallinn, Tartu, Pärnu and Narva).
- We will 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 will 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 will continue consistent investment in our IT-capabilities and -integration both at the level of the organisation and the employee.
- We will 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 the Group's Estonian operations during the reporting period. The Group was involved in building and infrastructure construction, being active in practically all market sub-segments. A significant proportion of the Group's core business was conducted by the parent, Nordecon AS, which continued to act as a holding company for the Group's main subsidiaries. In addition to the parent, construction management services were rendered by the subsidiary AS Eston Ehitus, which operates mostly in western and central Estonia.

As regards 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 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 the conflict between Ukraine and Russia. Economic uncertainty caused the Ukrainian hryvna to plummet against the euro. Negotiations over several treaties and agreements have been postponed until the situation in the country has stabilised. Due to the weakening of the hryvna, the Group recognised an exchange loss in the region of 0.85 million euros.

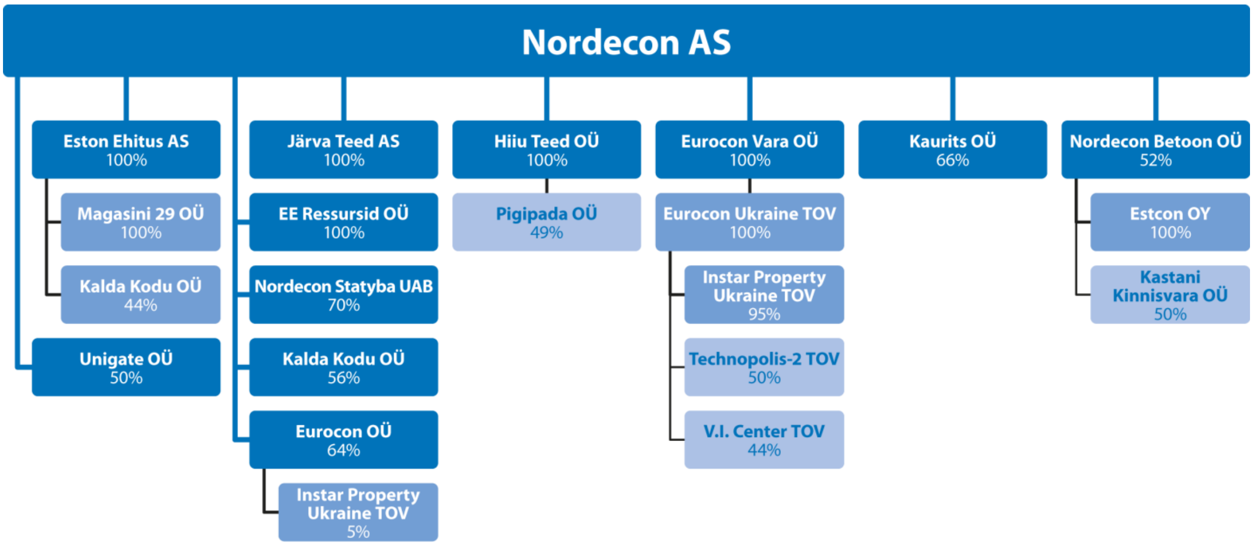
Real estate development projects that require extensive investment (we have currently stakes in two conserved development projects) remain suspended to minimise risks until the situation in Ukraine stabilises. To secure one of the investments, the Group and its co-owners privatised the land held by the associate V.I. Center TOV and 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.

Group structure

The Group's structure at 30 June 2014, including interests in subsidiaries and associates*



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

Sepavara OÜ

Substantive proceedings for the liquidation of the Group's Estonian associate Sepavara OÜ in which AS Eston Ehitus had a 50% stake were completed in April 2014. The entity did not conduct any business operations from 2013.

Financial review

Financial performance

Nordecon group ended the first half of 2014 with a gross profit of 4,212 thousand euros (H1 2013: 3,273 thousand euros) and a gross margin of 6.2% (H1 2013: 4.3%). The period's profit was earned in the second quarter when performance was not undermined by adverse weather conditions and the fixed costs of a technological standstill that typically characterise the first quarter. We succeeded in maintaining or improving the profitability of long-term contracts secured in 2013 and the margins of contracts secured in the current year also met expectations.

Future revenue composition will be increasingly impacted by contracts secured in the current market and competitive environment. The Group's management highlighted the expected fall in demand and rise in competitive pressure in previous periods already (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 and, possibly, improving profitability in a situation where volumes decrease. We remain aware that rises in input prices pose a risk for long-term contracts and continue to prioritize profitability over revenue growth or retention.

The Group's administrative expenses for the first half of 2014 totalled 2,471 thousand euros, 6% up on a year ago (H1 2013: 2,327 thousand euros). The ratio of administrative expenses to revenue (12 months rolling) was 3.1% (H1 2013: 3.0%). Our cost-control measures continue to yield strong results – administrative expenses remain below the target ceiling, i.e. 4% of revenue.

Operating profit for the first half-year amounted to 1,507 thousand euros (H1 2013: 954 thousand euros) while EBITDA grew to 2,455 thousand euros (H1 2013: 1,965 thousand euros).

Adverse movements in the euro/hryvna exchange rate gave rise to exchange losses that were significantly larger than those of previous periods. The Ukrainian hryvna weakened by around 31%, which meant that Group entities whose functional currency is the hryvna had to re-measure their euro-denominated liabilities. The Group's exchange losses, which are reported within finance costs, totalled 854 thousand euros (H1 2013: an exchange gain of 41 thousand euros). The same exchange loss gave rise to a positive 808 thousand-euro change in the translation reserve reported in equity (H1 2013: a negative change of 33 thousand euros) and the net effect of the exchange loss on the Group's net assets was 46 thousand euros (H1 2013: a gain of 9 thousand euros).

As a result, the Group's net profit amounted to 454 thousand euros (H1 2013: 812 thousand euros) of which the profit attributable to owners of the parent, Nordecon AS, was 221 thousand euros (H1 2013: 728 thousand euros).

Cash flows

Operating activities for the first half of 2014 resulted in a net cash outflow of 6,293 thousand euros (H1 2013: a net outflow of 7,955 thousand euros). Negative operating cash flow is typical of the first half-year and stems from the cyclical nature of the construction business. Projects completed in the previous year with higher than expected profit margins resulted in larger performance bonuses and accompanying tax charges. Similarly to previous periods, operating cash flows were influenced by a mismatch in settlement terms: the ones agreed with customers are long and in the case of public procurement mostly extend from 45 to 56 days while subcontractors generally have to be paid within 21 to 45 days.

Investing activities resulted in a net cash outflow of 597 thousand euros (H1 2013: a net outflow of 268 thousand euros). The largest one-off outflows resulted from a loan of 250 thousand euros to an entity of AS Nordic Contractors group (see note 14) and a payment of 180 thousand euros made to purchase the remaining shares in the subsidiary AS Eston Ehitus from the non-controlling shareholders (see note 15).

Financing activities resulted in a net cash inflow of 3,420 thousand euros (H1 2013: a net inflow of 2,417 thousand euros). Loan receipts exceeded loan repayments by 5,440 thousand euros while a year ago loan receipts exceeded loan repayments by 3,736 thousand euros. The change is mainly attributable to changes in the Group's overdraft balances as well as financing of own housing development projects. Finance lease payments declined slightly year over year. Dividends distributed in the first half of 2014 totalled 923 thousand euros (H1 2013: nil euros).

At 30 June 2014, the Group's cash and cash equivalents totalled 9,103 thousand euros (30 June 2013: 4,423 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	6M 2014	6M 2013	6M 2012	2013
Revenue (EUR'000)	67,444	75,497	62,920	173,651
Revenue change	-11%	20%	16%	8.9%
Net profit/loss (EUR'000)	454	812	-390	4,639
Profit/loss attributable to owners of the parent (EUR'000)	221	728	-491	4,642
Weighted average number of shares	30,756,728	30,756,728	30,756,728	30,756,728
Earnings per share (EUR)	0.01	0.02	-0.02	0.15
Administrative expenses to revenue	3.7%	3.1%	4.0%	2.8%
Administrative expenses to revenue (rolling)	3.1%	3.0%	3.2%	2.8%
EBITDA (EUR'000)	2,455	1,965	925	7,639
EBITDA margin	3.6%	2.6%	1.5%	4.4%
Gross margin	6.2%	4.3%	3.5%	6.5%
Operating margin	2.2%	1.3%	-0.3%	3.1%
Operating margin excluding gains on sale of real estate	2.1%	1.1%	-0.7%	2.9%
Net margin	0.7%	1.1%	-0.6%	2.7%
Return on invested capital	1.6%	2.2%	-0.3%	9.5%
Return on equity	1.3%	2.7%	-1.4%	14.2%
Equity ratio	33.8%	27.3%	25.0%	33.4%
Return on assets	1.4%	0.8%	-0.2%	4.3%
Gearing	31.6%	45.4%	48.5%	23.5%
Current ratio	1.07	1.08	1.05	1.02
As at	**30 June 2014**	**30 June 2013**	**30 June 2012**	**31 Dec 2013**
Order book (EUR'000)	87,236	103,230	166,367	64,286

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 gains on sale of real estate = ((operating profit - gains on sale of non-current assets – gains on sale 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 half of 2014, around 7% of the Group's revenue was generated outside Estonia compared with 2% in the first half of 2013.

	6M 2014	6M 2013	6M 2012	2013
Estonia	93%	98%	99%	95%
Finland	6%	2%	1%	5%
Ukraine	1%	0%	0%	0%

Finnish revenues comprise revenue from concrete works delivered in the building construction segment. The contribution of the Finnish market has increased year over year through growth in Finnish revenues, which has been amplified by a decrease in the Group's total revenue. Still, foreign revenues for the year as a whole will probably not prove significantly larger than those of 2013 and the contributions of the markets are not likely to change.

Geographical diversification of the revenue base is a consciously deployed strategy by which we mitigate the risks resulting from excessive concentration on a single market. Our strategy foresees increasing foreign operations in the longer term; for further information, see the chapter *Strategic agenda for 2014-2017*. Our vision of the Group's operations in foreign markets is described in the chapter *Outlooks of the Group's geographical markets.*

Performance by business line

Segment revenues

The Group strives to maintain the revenues of its operating segments (Buildings and Infrastructure) in balance as this helps disperse risks and provides better opportunities for continuing operations under stressed circumstances when one segment experiences shrinkage.

The Group's revenue for the first half of 2014 amounted to 67,444 thousand euros, an 11% decrease from the 75,497 thousand euros generated in the first half of 2013. A year ago, we were working on three large road construction projects of around 70 million euros whose contribution to the half-year revenue was considerable. Also, a year ago the volume of projects supported by the EU structural funds was larger. We drew attention to the fact that the volume of such projects would decline last year already. The revenues of the Buildings segment increased as expected through a rise in both the number of contracts secured and their average cost.

Consequently, the revenues of the two main operating segments, Buildings and Infrastructure, for the first half of 2014 amounted to 47,826 thousand euros and 17,936 thousand euros respectively. The corresponding figures for the first half of 2013 were 30,796 thousand euros and 42,638 thousand euros (see note 8). The change in the revenue structure is also reflected in our order book where at period-end 67% of the contracts (in terms of value) belonged to the Buildings segment (H1 2013: 48%).

Operating segments*	6M 2014	6M 2013	6M 2012	2013
Buildings	71%	41%	46%	41%
Infrastructure	29%	59%	54%	59%

* 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

In the revenue structure of the Buildings segment, the contribution of public buildings has decreased while that of apartment buildings has increased. The contributions of commercial buildings and industrial and warehouse facilities have remained at the same level as in the comparative period. The segment's main revenue contributors are contracts on the construction of commercial buildings in Tallinn (the Stroomi shopping centre) and Narva (an extension to the ASTRI shopping centre). Reconstruction of Estonia Spa in Pärnu is awaiting commencement. We expect the investment activity of private sector customers to remain robust and the contribution of the sub-segment to remain at a similar or even higher level throughout the year.

In the industrial and warehouse facilities sub-segment there has been a structural shift. In previous years, on account of EU investment support, most of the revenue resulted from contracts secured from the agricultural sector. By 2014 the proportion of EU-supported projects has decreased visibly and the main contributors are warehouse facilities and logistics centres (e.g. the Smarten logistics centre). The work done for companies engaged in heavy industry has increased as well. Estonia's economic growth is slowing but this has not yet had a negative impact on the long-cycle investment plans launched by companies in 2012 and 2013. Accordingly, we expect the revenues of the sub-segment to remain stable.

The competitive situation in the public buildings sub-segment is particularly challenging: it is hard to win a contract without taking excessive risks but our current policy is to avoid such risks. The largest projects of the period were the construction of the Translational Medicine Centre of the University of Tartu, the academic building of the NCO School of the Estonian National Defence College, and phase V of St Paul's Church in Tartu. The first two were completed by the end of the first half-year. If competition remains fierce, the contribution of the sub-segment is likely to decline.

Our apartment building revenues resulted mostly from general contracting. The main contributor was the construction of an apartment building at Pirita tee 26 in Tallinn which we won last year. In 2014 we secured and began building phase I in the construction of the Tondi residential quarter in Tallinn. We have also been successful in selling the last apartments and office premises in our own Tigutorn development project. Only one Tigutorn apartment is still for sale. Sale of apartment ownerships in phase I in our Magasini 29 development project (www.magasini.ee) has started well and we have started building phase II. We have also re-launched real estate development in Tartu where two new buildings with a total of 35 apartments will be completed in Tammelinn by the end of 2014 (www.tammelinn.ee).

Revenue distribution within Buildings segment	6M 2014	6M 2013	6M 2012	2013
Commercial buildings	49%	45%	19%	45%
Industrial and warehouse facilities	33%	34%	28%	29%
Public buildings	6%	19%	49%	21%
Apartment buildings	12%	2%	4%	5%

In the first half of 2014, the main revenue source in the Infrastructure segment was road construction. The average cost of the sub-segment's contracts has fallen and operating volumes are not going to rise to the level of 2013 but the contribution of the sub-segment will remain the strongest, partly thanks to road maintenance services delivered under long-term contracts in the Järva and Hiiu counties and the Keila maintenance area.

In specialist engineering, a noteworthy project was the construction of the Sõpruse bridge boat harbour in Tartu. There is currently no information about any major projects that might require hydraulic engineering work this year. The revenues of the sub-segment may increase through other complex engineering work but relevant revenue flows are likely to be irregular.

The decline in EU support due to the change of budget periods has had a strong impact on our environmental engineering and utility network construction (other engineering) revenues, which have decreased more rapidly than the revenues of other sub-segments. It is likely that the contributions of the two sub-segments will see further contraction because a relatively large portion of their revenue for the first half-year resulted from long-term contracts secured in the previous period. Most new contracts are small.

Revenue distribution within Infrastructure segment	6M 2014	6M 2013	6M 2012	2013
Road construction and maintenance	74%	54%	40%	54%
Specialist engineering (including hydraulic engineering)	4%	8%	16%	8%
Other engineering	7%	27%	38%	26%
Environmental engineering	15%	11%	6%	12%

Order book

At 30 June 2014, our order book (backlog of contracts signed but not yet performed) stood at 87,236 thousand euros, a 15% decrease compared with a year ago.

The order book of the Infrastructure segment contracted by around 46% year over year. The largest decrease occurred in contracts signed for the construction of utility networks (other engineering sub-segment) and environmental engineering as in the last year of the EU 2007-2013 budget period allocations of relevant investment support were expectedly smaller. The backlog of hydraulic engineering work decreased as well.

The order book of the road construction sub-segment shrank too (by around 30%). In 2013 the sub-segment was involved in three major public procurement projects, which were all substantially completed by the year-end. The new national road management plan reflects a change in the structure of road construction investments. In particular, the proportion of large-scale projects will diminish. This means that companies engaged in road construction have to face a new reality – the average cost of road construction contracts is going to decrease, which will inevitably influence the competitive environment.

On the other hand, the order book of the Buildings segment grew by around 18%. The order books of the commercial buildings and industrial and warehouse facilities sub-segments showed strong growth, mostly thanks to a rise in private sector investments.

	6M 2014	6M 2013	6M 2012	2013
Order book (EUR'000)	87,236	103,230	166,367	64,286

At the reporting date, contracts secured by the Buildings segment and the Infrastructure segment accounted for 67% and 33% of our order book respectively. This is a radical change compared with recent years when the figures for the two segments were more or less equal (30 June 2013: 48% and 52% respectively). It is likely that building construction contracts will dominate the order book for the next few years. In the current EU budget period (2014-2020) investments in infrastructure construction which to date have mostly been made with the support of the EU structural funds will not be as large as in 2007-2013. In particular, this applies to 2014, which is turning into a switchover year between the budget periods, where most efforts are directed at preparatory administrative activities required for enabling the investments. Hence, we expect the revenues of the Infrastructure segment to decline in 2014 (for further information, see the *Business risks* section of the chapter *Description of the main risks*).

We believe that in a situation where the market is expected to shrink, our priority cannot be increasing the Group's revenue or maintaining it at the level of 2013. Instead, the main focus must be on improving profitability. We do not consider the present decline in the Group's order book to be critical. Based on our historical experience, it is quite typical that a significant portion of budgeted operating volumes is secured through new contracts signed during the year. The beginning of the year has already partly confirmed this: since the end of 2013 our order book has grown by 36%.

Between the reporting date (30 June 2014) and the date of release of this report, Group companies have secured additional construction contracts in the region of 18,445 thousand euros.

People

Staff and personnel expenses

In the first half of 2014, the Group (the parent and the subsidiaries) employed, on average, 741 people including 353 engineers and technical personnel (ETP). Workforce has decreased compared with a year ago due to shrinkage in operating volumes. When operating volumes grew in 2013, we signed, where possible, fixed-term (project-based) contracts with the people that were additionally hired. This allowed us to respond flexibly in a situation where it was clear that the work flows of some sub-segments would decrease.

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

	6M 2014	6M 2013	6M 2012	2013
ETP	353	362	371	357
Workers	388	412	400	400
Total average	**741**	**774**	**771**	**757**

The Group’s personnel expenses for the first half of 2014 including all taxes totalled 8,904 thousand euros, 4% up on the comparative period when the figure was 8,582 thousand euros. The rise is mostly attributable to a salary increase and payment of project-based performance pay.

In the first half of 2014, the service fees of the members of the council of Nordecon AS amounted to 71 thousand euros and associated social security charges totalled 23 thousand euros (H1 2013: 71 thousand euros and 23 thousand euros respectively).

The service fees of the members of the board of Nordecon AS amounted to 138 thousand euros and associated social security charges totalled 46 thousand euros (H1 2013: 101 thousand euros and 33 thousand euros respectively).

Labour productivity and labour cost efficiency

The period’s nominal labour productivity was lowered by a rise in performance bonuses paid in the context of improved profitability. In comparative periods, the proportion of performance bonuses in the Group’s personnel expenses was significantly smaller.

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 paid:

	6M 2014	6M 2013	6M 2012	2013
Nominal labour productivity (rolling), (EUR’000)	224.1	224.6	208.6	229.4
Change against the comparative period	-0.2%	7.7%	33.8%	9.9%
Nominal labour cost efficiency (rolling), (EUR’000)	7.9	9.4	10.6	8.4
Change against the comparative period	-16.0%	-11.3%	29.1%	-11.6%

Nominal labour productivity (rolling) = (past four quarters’ revenue) / (past four quarters’ average number of employees)
Nominal labour cost efficiency (rolling) = (past four quarters’ revenue) / (past four quarters’ personnel expenses)

Share and shareholders

Share information

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

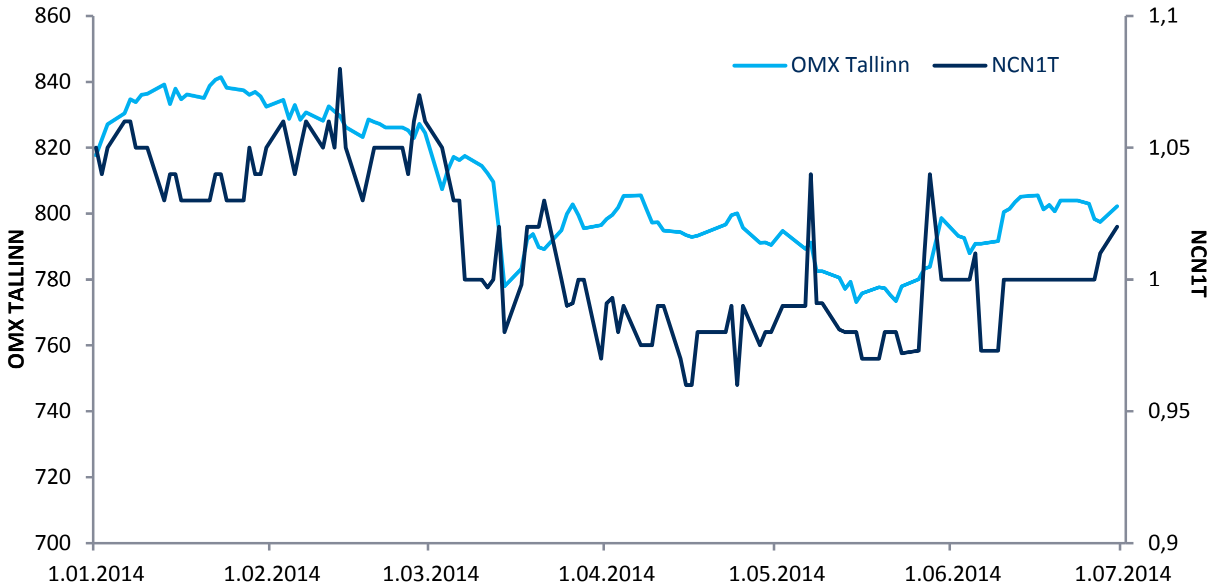
* In connection with Estonia's accession to the euro area on 1 January 2011 and in line with amendments to the Estonian Commercial Code that took effect on 1 July 2010 as well as a resolution adopted by the annual general meeting of Nordecon AS in May 2011, the company's share capital was converted from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

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

Movements in the price and turnover of the Nordecon AS share in the first half of 2014

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 half of 2014



Index/equity	1 January 2014*	30 June 2014	+/-
OMX Tallinn	817.72	802.26	-1.89%
NCN1T	EUR 1.05	EUR 1.02	-2.86%

* Closing price on the NASDAQ OMX Tallinn Stock Exchange at 31 December 2013

Summarised trading results

Share trading history (EUR)

Price	6M 2014	6M 2013	6M 2012
Open	1.05	1.17	0.92
High	1.09	1.28	1.18
Low	0.93	1.00	0.88
Last closing price	1.02	1.10	1.17
Traded volume (number of securities traded)	1,261,552	1,849,996	2,060,558
Turnover, in millions	1.30	2.17	2.15
Listed volume (30 June), in thousands	30,757	30,757	30,757
Market capitalisation (30 June), in millions	31.37	33.83	35.99

Shareholder structure

Largest shareholders of Nordecon AS at 30 June 2014

Shareholder	Number of shares	Ownership interest (%)
AS Nordic Contractors	16,507,464	53.67
Luksusjaht AS	3,041,874	9.89
ING Luxembourg S.A.	2,007,949	6.53
SEB Pank AS clients	657,500	2.14
State Street Bank and Trust Omnibus Account A Fund	567,464	1.85
Rondam AS	540,000	1.76
ASM Investments OÜ	519,600	1.69
Ain Tromp	478,960	1.56
SEB Elu- ja pensionikindlustus AS	262,700	0.85
Genadi Bulatov	250,600	0.81

Shareholder structure of Nordecon AS at 30 June 2014

	Number of shareholders	Ownership interest (%)
Shareholders with interest exceeding 5%	3	70.09
Shareholders with interest between 1% and 5%	5	8.99
Shareholders with interest below 1%	1,839	20.92
Total	**1,847**	**100**

Shares controlled by members of the council of Nordecon AS at 30 June 2014

Council member		Number of shares	Ownership interest (%)
Toomas Luman (AS Nordic Contractors, OÜ Luman ja Pojad)*	Chairman of the Council	16,579,144	53.90
Alar Kroodo (ASM Investments OÜ)	Member of the Council	519,600	1.69
Ain Tromp	Member of the Council	478,960	1.56
Andri Hõbemägi	Member of the Council	50,000	0.16
Tiina Mõis	Member of the Council	0	0.00
Meelis Milder	Member of the Council	0	0.00
Total		**17,627,704**	**57.31**

* Companies controlled by the individual

Shares controlled by members of the board of Nordecon AS at 30 June 2014

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

* Companies controlled by the individual

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 in order to ensure consistency in the company's management and improvement of the company's performance, and to enable the company's executive management to benefit from their contribution to growth in the value of the company's share. Under the share option plan, the company may grant options for acquiring up to 1,618,755 shares in Nordecon AS. Under the option 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 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 company'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 for a total price 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 shares at the same price.

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.

Compared with a year ago, competition for public sector contracts has intensified visibly. The volume of public sector investments decreased in 2013 and the prospects of maintaining volumes in 2014 are not good. There is strong competitive pressure on builders' bid prices although input prices mostly continue to climb. Competition is particularly fierce in the building construction segment. We acknowledge the risks inherent in the execution of contracts concluded in an environment of stiff competition. Securing a long-term construction contract at an unreasonably low price in a situation where input prices cannot be lowered noticeably and competition is fierce involves high risk, because the contract may quickly start generating a loss. Thus, in price-setting we currently prioritize profitability over increasing or retaining the revenue figure.

In the next periods, demand for construction services will be driven by public sector investments. In previous years, a major share of investments was made with the assistance of allocations from the EU structural funds that were determined, both in terms of size and timing, by the EU financial framework 2007-2013. In general, the amounts allocated to Estonia under the next EU financial framework (2014-2020) are known (5.9 billion euros) but the volume and schedule of investments involving construction work have not yet been finalised. According to information released to date, the overall volume of construction-related investments is going to decline compared with the previous budget period and 2014 will become a so-called 'gap' year between the two budget periods, where most efforts are directed at preparatory administrative activities required for enabling the investments.

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

Our primary goal is to maintain profitability even when construction volumes shrink. Thanks to decisions adopted in previous periods, we will not have to undertake any extensive restructuring when construction volumes change.

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, we endeavour 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 even 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 June 2014, the Group's warranty provisions (including current and non-current ones) totalled 1,199 thousand euros. The comparative figure for a year ago was 1,150 thousand euros.

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

Financial risks

Credit risk

In the reporting period, the Group did not incur any credit losses. The credit risk exposure of the Group's receivables continued to be low because the proportion of public sector customers that receive their financing from the state and local governments as well as the EU structural funds continued to be high. The main indicator of the 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 half of 2014, the Group had no impairment losses on receivables (H1 2013: a gain of 6 thousand euros on reversal of prior period impairment losses).

Liquidity risk

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

At the reporting date, the Group's current assets exceeded its current liabilities 1.07-fold (30 June 2013: 1.08-fold). Factors influencing the ratio include reclassification of loans provided to the Group's Ukrainian associates to non-current assets and the fact that generally banks do not refinance interest-bearing liabilities for a period exceeding 12 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 loan receivables from our Ukrainian associates of 10,512 thousand euros were classified as non-current assets.

Interest-bearing liabilities account for a significant proportion of our current liabilities. In accordance with IFRS EU, loan commitments have to be classified into current and non-current liabilities based on the contractual conditions effective at the reporting date. To date, banks have refinanced the Group's liabilities for periods not exceeding 12 months, which is why a substantial portion of loans are classified as current liabilities although it is probable that some borrowings (particularly overdraft facilities) will be refinanced again when the 12 months have passed.

At the reporting date, the Group's cash and cash equivalents totalled 9,103 thousand euros (30 June 2013: 4,423 thousand euros).

Interest rate risk

The Group's interest-bearing liabilities to banks have both fixed and floating interest rates. Finance lease liabilities have mainly floating interest rates. The base rate for most floating-rate contracts is EURIBOR. At 30 June 2014, the Group's interest-bearing loans and borrowings totalled 29,602 thousand euros, a decrease of 4,224 thousand euros year over year. Interest expense for the period amounted to 363 thousand euros, 169 thousand euros down from a year ago.

The main source of the Group's interest rate risk is the possibility of a rapid upsurge in the base rate of floating interest rates (EURIBOR, EONIA or the creditor's own base rate). In 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 the 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 derivative financial instruments 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 hryvnas (UAH).

The change in Ukraine's political leadership at the beginning of 2014, economic difficulties and conflict with Russia over the autonomous region of Crimea caused the exchange rate of the hryvna to tumble. By the reporting date, the hryvna had weakened against the euro by around 31%. For the Group's Ukrainian subsidiaries, this meant additional exchange losses on the translation of euro-denominated loan commitments into the local currency. Relevant exchange losses totalled 854 thousand euros (H1 2013: an exchange gain of 64 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 related to 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 (items connected with the construction business) do not give rise to any material 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 financial statements.

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

Outlooks of the Group's geographical markets

Estonia

Processes and developments characterising the Estonian construction market

- In 2014 public investment will decrease in connection with the change of the EU budget periods because implementation of measures requires time. Although during the 2014-2020 financial framework allocations to Estonia will increase to 5.9 billion euros (2007-2013: 4.6 billion euros), support payments from the structural funds that influence the construction market will not increase significantly. Instead, compared with the previous budget period, there will be an increase in allocations to projects not related to tangible assets.

  Investments made by the largest public sector customers (state-owned real estate company Riigi Kinnisvara AS and the National Road Administration), which will reach the stage of conclusion of a construction contract in 2014 will either not increase significantly or may even decrease. As a result, the Estonian construction market (particularly segments related to infrastructure construction) will shrink. The situation will be somewhat alleviated by private customers' increasing investment in building construction.

- The construction market will see further consolidation, particularly in the field of general contracting in building construction where the number of medium-sized operators (annual turnover of around 15-40 million euros) is still too large, but the process will be slower than expected. Based on the past three years' experience it is likely that stiff competition and insufficient demand will induce some general contractors to go slowly out of business or shrink in size rather than merge with another or exit the market. However, it is also increasingly common that two to four smaller players that are seeking ways to remain in business will form a consortium to bid for major procurement contracts, meet tendering terms and secure the required funding.

- Competition will increase in all segments of the construction market. We see a rise in the average number of bidders for a contract and there is already a notable gap between the lowest bids made by the winners and the average bids. The situation is somewhat similar to 2009 when anticipation of a fall in demand caused a rapid decline in construction prices, which triggered a slide in the prices of many construction inputs. However, there are currently no massive decreases in input prices and companies that are banking on this in the bidding phase may run into difficulty. Construction prices and thus also profit margins are under strong competitive pressure.

- In new housing development, the success of a project depends on the developer's ability to control the input prices included in the business plan and thus to set an affordable sales price. Although the overall situation is improving steadily, the offering of new residential real estate cannot be increased dramatically because the prices of new apartments are relatively high compared with the standard of living and the banks' lending terms remain strict. Similarly to previous periods, successful projects include those that create or fill a niche.

- The contracts signed with public sector customers continue to impose tough conditions on construction companies: extensive obligations, strict sanctions, various financial guarantees, long settlement terms, etc. Contractors cannot implement more optimal solutions identified in the construction phase that would reduce the construction or operating costs of the asset without sanctions because procurement terms do not allow this. In a situation where public procurement is based on underbidding, the above factors increase the risks of all market participants. Still, compared to two or three years ago, the situation has improved and in some respects procurement terms have become more reasonable for construction companies.

- The prices of construction inputs will remain relatively stable. In the short term, weakening demand may lower local subcontracting prices. However, taking into account the subcontractors' financial and human resources, the decline cannot be substantial or long-lasting. In some areas, price fluctuations are be unpredictable and, thus, notably greater and hard or even impossible to influence (oil and metal products, certain materials and equipment).

- Shortage of skilled labour (including project and site managers) will persist. This will undermine not so much the companies' performance capabilities as the quality of carrying out the construction process, i.e. delivering the service. Shrinkage in construction volumes in Estonia may increase labour supply but not substantially. Labour migration to the Nordic countries will remain steady and although those markets (particularly Finland) may also shrink, the number of job seekers that will return will not increase considerably. Accordingly, the basic wage of construction-sector employees will not decrease. Instead, the rise in the cost of living is creating pressure for a wage increase.

Latvia and Lithuania

In our opinion, the Latvian construction market, which was hit by a severe downturn a few years ago, has not regained sufficient stability and similarly to the Estonian market in 2014 it will probably see shrinkage in public sector demand. Accordingly, it is unlikely that we will enter the Latvian construction market permanently in 2014.

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

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

Ukraine

The Group operates in Ukraine as a general contractor and project manager in the segment of commercial buildings and production facilities, offering its services primarily to foreign private sector customers. In the past three years, there have been practically no private sector customers in that segment. The political situation in Ukraine is worrying and undoubtedly affects adoption of business decisions by construction market participants. Regardless of this, we will continue our business in Ukraine in 2014. Compared with the previous year, our current Ukrainian order book is somewhat larger. We continue to monitor the situation in the Ukrainian construction market closely and will restructure our operations as appropriate. We also continue to seek opportunities for exiting our two conserved real estate projects or signing a construction contract with a potential new owner.

Finland

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

Management’s confirmation and signatures

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

Jaano Vink	Chairman of the Board	7 August 2014
Avo Ambur	Member of the Board	7 August 2014
Erkki Suurorg	Member of the Board	7 August 2014

Condensed consolidated interim financial statements

Condensed consolidated interim statement of financial position

EUR'000	Note	30 June 2014	31 December 2013
ASSETS			
Current assets			
Cash and cash equivalents		9,103	12,575
Trade and other receivables	2	27,744	28,101
Prepayments		2,134	1,923
Inventories	3	25,805	23,785
Total current assets		**64,786**	**66,384**
Non-current assets			
Investments in equity-accounted investees		588	566
Other investments		26	26
Trade and other receivables	2	11,137	10,645
Investment property		3,553	3,549
Property, plant and equipment	4	9,295	9,030
Intangible assets	4	14,590	14,494
Total non-current assets		**39,189**	**38,310**
TOTAL ASSETS		**103,975**	**104,694**
LIABILITIES			
Current liabilities			
Loans and borrowings	5, 6	22,588	23,875
Trade payables		29,522	26,372
Other payables		6,340	7,982
Deferred income		1,492	6,102
Provisions		525	913
Total current liabilities		**60,467**	**65,244**
Non-current liabilities			
Loans and borrowings	5, 6	7,015	3,303
Trade payables		155	156
Other payables		96	96
Provisions		1,057	969
Total non-current liabilities		**8,323**	**4,524**
TOTAL LIABILITIES		**68,790**	**69,768**
EQUITY			
Share capital		19,657	19,657
Statutory capital reserve		2,554	2,554
Translation reserve		512	-298
Retained earnings		9,979	10,681
Total equity attributable to owners of the parent		**32,702**	**32,594**
Non-controlling interests		**2,483**	**2,332**
TOTAL EQUITY		**35,185**	**34,926**
TOTAL LIABILITIES AND EQUITY		**103,975**	**104,694**

Condensed consolidated interim statement of comprehensive income

EUR'000	Note	Q2 2014	Q2 2013	6M 2014	6M 2013	2013
Revenue	8, 9	43,900	48,416	67,444	75,497	173,651
Cost of sales	10	-40,858	-45,736	-63,232	-72,224	-162,342
Gross profit		**3,042**	**2,680**	**4,212**	**3,273**	**11,309**
Marketing and distribution expenses		-95	-77	-344	-139	-452
Administrative expenses	11	-1,347	-1,091	-2,471	-2,327	-4,922
Other operating income	12	109	6	174	206	464
Other operating expenses	12	-35	-22	-64	-59	-1,096
Operating profit		**1,674**	**1,496**	**1,507**	**954**	**5,303**
Finance income	13	162	182	326	383	668
Finance costs	13	-262	-257	-1,222	-558	-1,027
Net finance costs		**-100**	**-75**	**-896**	**-175**	**-359**
Share of profit/loss of equity-accounted investees		83	86	22	77	-170
Profit before income tax		**1,657**	**1,507**	**633**	**856**	**4,774**
Income tax expense		-179	-43	-179	-44	-135
Profit for the period		**1,478**	**1,464**	**454**	**812**	**4,639**
Other comprehensive income/expense						
Items that may be reclassified subsequently to profit or loss						
Exchange differences on translating foreign operations		89	20	810	-33	106
Total other comprehensive income/expense		**89**	**20**	**810**	**-33**	**106**
TOTAL COMPREHENSIVE INCOME		**1,567**	**1,484**	**1,264**	**779**	**4,745**
Profit attributable to:						
- Owners of the parent		1,294	1,401	221	728	4,642
- Non-controlling interests		184	63	233	84	-3
Profit for the period		**1,478**	**1,464**	**454**	**812**	**4,639**
Total comprehensive income attributable to:						
- Owners of the parent		1,383	1,421	1,031	695	4,748
- Non-controlling interests		184	63	233	84	-3
Total comprehensive income for the period		**1,567**	**1,484**	**1,264**	**779**	**4,745**
Earnings per share attributable to owners of the parent:						
Basic earnings per share (EUR)	7	0.04	0.05	0.01	0.02	0.15
Diluted earnings per share (EUR)	7	0.04	0.05	0.01	0.02	0.15

Condensed consolidated interim statement of cash flows

EUR'000	Note	6M 2014	6M 2013
Cash flows from operating activities			
Cash receipts from customers[1]		73,297	70,286
Cash paid to suppliers[2]		-66,917	-68,190
VAT paid		-2,478	-1,024
Cash paid to and for employees		-10,195	-9,026
Income tax paid		0	-1
Net cash used in operating activities		**-6,293**	**-7,955**
Cash flows from investing activities			
Paid on acquisition of property, plant and equipment		-360	-228
Proceeds from sale of property, plant and equipment	4	111	102
Acquisition of a subsidiary		-180	0
Acquisition of investments in associates		0	-350
Loans provided		-268	-349
Repayment of loans provided		95	196
Dividends received		4	4
Interest received		1	357
Net cash used in investing activities		**-597**	**-268**
Cash flows from financing activities			
Proceeds from loans received		9,695	7,002
Repayment of loans received		-4,255	-3,266
Payment of finance lease liabilities		-706	-848
Interest paid		-391	-471
Dividends paid		-923	0
Net cash from financing activities		**3,420**	**2,417**
Net cash flow		**-3,470**	**-5,806**
Cash and cash equivalents at beginning of period		**12,575**	**10,231**
Effect of exchange rate fluctuations on cash and cash equivalents		-2	-2
Decrease in cash and cash equivalents		-3,470	-5,806
Cash and cash equivalents at end of period		**9,103**	**4,423**

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

[2] Line item *Cash paid to suppliers* includes VAT paid

Condensed consolidated interim statement of changes in equity

EUR'000	Equity attributable to owners of the parent						
	Share capital	Statutory capital reserve	Translation reserve	Retained earnings	Total	Non-controlling interests	Total
Balance at 31 December 2012	**19,657**	**2,554**	**-404**	**6,039**	**27,846**	**2,456**	**30,302**
Profit for the period	0	0	0	728	728	84	812
Other comprehensive expense	0	0	-33	0	-33	0	-33
Dividend distribution	0	0	0	-81	-81	-76	-157
Balance at 30 June 2013	**19,657**	**2,554**	**-437**	**6,686**	**28,460**	**2,464**	**30,924**
Balance at 31 December 2013	**19,657**	**2,554**	**-298**	**10,681**	**32,594**	**2,332**	**34,926**
Profit for the period	0	0	0	221	221	233	454
Other comprehensive income	0	0	810	0	810	0	810
Changes in non-controlling interests	0	0	0	0	0	-82	-82
Dividend distribution	0	0	0	-923	-923	0	-923
Balance at 30 June 2014	**19,657**	**2,554**	**512**	**9,979**	**32,702**	**2,483**	**35,185**

Notes to the condensed consolidated interim financial statements

NOTE 1. Significant accounting policies

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

The condensed consolidated interim financial statements as at and for the period ended 30 June 2014 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 2013.

The Group has not changed its significant accounting policies compared with the consolidated financial statements as at and for the year ended 31 December 2013. 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 first half of 2014 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 June 2014	31 December 2013
Current portion			
Trade receivables		18,162	17,255
Retentions receivable		1,049	3,541
Receivables from related parties		102	138
Loans to related parties	14	1,858	1,786
Miscellaneous receivables		1,742	1,733
Total receivables and loans provided		**22,913**	**24,453**
Due from customers for contract work		4,831	3,648
Total trade and other receivables		**27,744**	**28,101**

EUR'000	Note	30 June 2014	31 December 2013
Non-current portion			
Loans to related parties	14	10,764	10,267
Miscellaneous long-term receivables		373	378
Total trade and other receivables		**11,137**	**10,645**

NOTE 3. Inventories

EUR'000	30 June 2014	31 December 2013
Raw materials and consumables	4,220	3,623
Work in progress	6,816	5,061
Goods for resale and properties held for development	14,177	14,223
Finished goods	592	878
Total inventories	**25,805**	**23,785**

NOTE 4. Property, plant and equipment and intangible assets

Property, plant and equipment

In the first half of 2014, the Group did not conduct any significant transactions with items of property, plant and equipment. The period's additions totalled 860 thousand euros and consisted of equipment and construction machinery acquired for the Group's operating activities.

Proceeds from sale of property, plant and equipment totalled 111 thousand euros (see the statement of cash flows) and sales gain on the transactions amounted to 104 thousand euros (note 12).

Intangible assets

In the first half of 2014, goodwill increased by 93 thousand euro in connection with the purchase of shares in AS Eston Ehitus from the non-controlling shareholders (note 15). There were no other significant transactions with intangible assets.

NOTE 5. Finance and operating leases

EUR'000	30 June 2014	31 December 2013
Finance lease liabilities at end of reporting period	**4,164**	**3,834**
Of which payable in less than 1 year	1,130	1,076
Of which payable between 1 and 5 years	3,034	2,758
Base currency EUR	4,164	3,834
Interest rates of contracts denominated in EUR[1]	2.0%-5.2%	2.0%-5.2%
Periodicity of payments	Monthly	Monthly

[1] Includes leases with floating interest rates

Finance lease payments made

EUR'000	6M 2014	6M 2013
Principal payments made during the period	706	848
Interest payments made during the period	69	74

Operating lease payments made

EUR'000	6M 2014	6M 2013
Payments made for cars	332	305
Payments made for construction equipment	1,207	780
Payments made for premises	316	344
Payments made for software	145	133
Total operating lease payments made	**2,000**	**1,562**

NOTE 6. Loans and borrowings

Short-term loans and borrowings

EUR'000	Note	30 June 2014	31 December 2013
Current portion of long-term loans		6,348	8,575
Current portion of finance lease liabilities	5	1,130	1,076
Short-term bank loans		15,110	10,849
Factoring liabilities		0	3,375
Total short-term loans and borrowings		**22,588**	**23,875**

Long-term loans and borrowings

EUR'000	Note	30 June 2014	31 December 2013
Long-term bank loans		3,981	545
Finance lease liabilities	5	3,034	2,758
Total long-term loans and borrowings		**7,015**	**3,303**

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	6M 2014	6M 2013
Profit for the period attributable to owners of the parent	221	728
Weighted average number of shares (in thousands)	30,757	30,757
Basic earnings per share (EUR)	0.01	0.02
Diluted earnings per share (EUR)	0.01	0.02

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

NOTE 8. Segment reporting – operating segments

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

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

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

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

Preparation of segment reporting

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

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

First half-year

EUR'000 6M 2014	Buildings EU	Buildings UKR	Infrastructure EU	Other segments	Total
Total revenue	46,988	845	18,192	2,540	68,565
Inter-segment revenue	-7	0	-256	-1,195	-1,458
Revenue from external customers	**46,981**	**845**	**17,936**	**1,345**	**67,107**
Gross profit/loss of the segment	**4,011**	**38**	**886**	**-57**	**4,878**

EUR'000 6M 2013	Buildings EU	Buildings UKR	Infrastructure EU	Other segments	Total
Total revenue	30,793	50	43,005	2,060	75,908
Inter-segment revenue	0	-47	-367	-663	-1,077
Revenue from external customers	**30,793**	**3**	**42,638**	**1,397**	**74,831**
Gross profit of the segment	**2,335**	**33**	**1,154**	**132**	**3,654**

Second quarter

EUR'000 Q2 2014	Buildings EU	Buildings UKR	Infrastructure EU	Other segments	Total
Total revenue	28,397	611	13,714	1,324	44,046
Inter-segment revenue	-7	0	-92	-205	-304
Revenue from external customers	**28,390**	**611**	**13,622**	**1,119**	**43,742**
Gross profit of the segment	**2,412**	**17**	**929**	**32**	**3,390**

EUR'000 Q2 2013	Buildings EU	Buildings UKR	Infrastructure EU	Other segments	Total
Total revenue	18,090	3	29,518	1,064	48,675
Inter-segment revenue	0	0	321	-875	-554
Revenue from external customers	**18,090**	**3**	**29,839**	**189**	**48,121**
Gross profit of the segment	**1,299**	**-6**	**1,378**	**191**	**2,862**

Reconciliation of segment revenues

EUR'000	6M 2014	Q2 2014	6M 2013	Q2 2013
Total revenues for reportable segments	66,025	42,722	73,848	47,611
Revenue for other segments	2,540	1,324	2,060	1,064
Elimination of inter-segment revenues	-1,458	-304	-1,076	-554
Unallocated revenue	337	158	665	295
Total consolidated revenue	**67,444**	**43,900**	**75,497**	**48,416**

Reconciliation of segment profit

EUR'000	6M 2014	Q2 2014	6M 2013	Q2 2013
Total profit for reportable segments	4,935	3,358	3,522	2,671
Total profit/loss for other segments	-57	32	132	191
Elimination of inter-segment profits and losses	-8	-4	-8	-4
Unallocated profits and losses	-658	-344	-373	-178
Consolidated gross profit	**4,212**	**3,042**	**3,273**	**2,680**
Unallocated expenses:				
Marketing and distribution expenses	-344	-95	-139	-77
Administrative expenses	-2,471	-1,347	-2,327	-1,091
Other operating income and expenses	110	74	147	-16
Consolidated operating profit	**1,507**	**1,674**	**954**	**1,496**
Finance income	326	162	383	182
Finance costs	-1,222	-262	-558	-257
Share of profit of equity-accounted investees	22	83	77	86
Consolidated profit before tax	**633**	**1,657**	**856**	**1,507**

NOTE 9. Segment reporting – geographical information

EUR'000	6M 2014	Q2 2014	6M 2013	Q2 2013
Estonia	62,433	40,884	74,049	47,756
Ukraine	845	611	50	3
Finland	4,173	2,412	1,447	657
Inter-segment eliminations	-7	-7	-49	0
Total revenue	**67,444**	**43,900**	**75,497**	**48,416**

NOTE 10. Cost of sales

EUR'000	6M 2014	6M 2013
Cost of materials, goods and services used	54,629	63,796
Personnel expenses	7,597	7,411
Depreciation and amortisation expense	929	929
Other expenses	77	88
Total cost of sales	**63,232**	**72,224**

NOTE 11. Administrative expenses

EUR'000	6M 2014	6M 2013
Personnel expenses	1,307	1,171
Cost of materials, goods and services used	1,103	1,004
Depreciation and amortisation expense	11	82
Other expenses	50	70
Total administrative expenses	**2,471**	**2,327**

NOTE 12. Other operating income and expenses

EUR'000	6M 2014	6M 2013
Other operating income		
Gain on sale of property, plant and equipment	104	140
Other income	70	66
Total other operating income	**174**	**206**

EUR'000	6M 2014	6M 2013
Other operating expenses		
Loss on disposal of property, plant and equipment	0	15
Foreign exchange loss	0	3
Net loss/gain on recognition and reversal of impairment losses on receivables	0	-6
Other expenses	64	47
Total other operating expenses	**64**	**59**

NOTE 13. Finance income and costs

EUR'000	6M 2014	6M 2013
Finance income		
Interest income on loans	317	311
Foreign exchange gain	2	67
Other finance income	7	5
Total finance income	**326**	**383**

EUR'000	6M 2014	6M 2013
Finance costs		
Interest expense	364	532
Foreign exchange loss	854	0
Other finance costs	4	26
Total finance costs	**1,222**	**558**

NOTE 14. Transactions with related parties

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

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

Purchase and sales transactions conducted with related parties during the period

EUR'000		6M 2014		6M 2013
Counterparty	**Purchases**	**Sales**	**Purchases**	**Sales**
AS Nordic Contractors	170	0	195	0
Companies of AS Nordic Contractors group	1	4	7	882
Associates	485	9	306	13
Companies related to members of the council	21	0	22	0
Total	**677**	**13**	**530**	**895**

EUR'000		6M 2014		6M 2013
Nature of transactions performed	**Purchases**	**Sales**	**Purchases**	**Sales**
Construction services	485	9	306	786
Lease and other services	192	4	224	109
Total	**677**	**13**	**530**	**895**

During the reporting period, the Group gave a company of AS Nordic Contractors group a loan of 250 thousand euros (H1 2013: nil euros). In the period, the Group recognised interest income on loans to associates of 244 thousand euros (H1 2013: 259 thousand euros), on loans to joint ventures of 56 thousand euros (H1 2013: 56 thousand euros) and on a loan to a company of AS Nordic Contractors group of 2 thousand euros (H1 2013: nil euros).

Receivables from and liabilities to related parties at period-end

		30 June 2014		31 December 2013
EUR'000	**Receivables**	**Liabilities**	**Receivables**	**Liabilities**
AS Nordic Contractors	0	9	0	9
Companies of AS Nordic Contractors group – receivables	0	0	1	0
Companies of AS Nordic Contractors group – loans and interest	252	0	0	0
Associates - receivables	102	324	137	167
Associates – loans and interest	10,637	0	10,385	0
Joint ventures – loans and interest	1,733	0	1,668	0
Total	**12,724**	**333**	**12,191**	**176**

Remuneration of the council and the board

In the first half of 2014, the service fees of the members of the council of Nordecon AS amounted to 71 thousand euros and associated social security charges totalled 23 thousand euros (H1 2013: 71 thousand euros and 23 thousand euros respectively).

The service fees of the members of the board of Nordecon AS amounted to 138 thousand euros and associated social security charges totalled 46 thousand euros (H1 2013: 101 thousand euros and 33 thousand euros respectively).

NOTE 15. Transactions with shares in a subsidiary

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

Through the transaction, the Group also became the sole shareholder in the subsidiaries Kalda Kodu OÜ and Magasini 29 OÜ.

Cost of the transaction and goodwill acquired

	EUR'000
Cost of interest acquired	180
Fair value of net assets acquired	87
Goodwill	**93**

The goodwill of 93 thousand euros was recognised in the statement of financial position and has not been written down.

NOTE 16. Contingent assets and liabilities

On 11 July 2011, Aivar Noormets, a non-controlling shareholder in the Group's subsidiary Eurocon OÜ, brought an action against Nordecon AS, seeking that Nordecon AS purchase his share in Eurocon OÜ, the par value of which was 969 euros, for 538,520 euros. Aivar Noormets filed the claim based on an agreement on the division and sale of a share signed between him, Marika Noormets and Nordecon AS on 12 February 2008. The agreement gave Aivar Noormets the right to demand after the approval of the financial results of Eurocon OÜ for 2009 that his share be purchased for at least the above price. By the ruling of Harju County Court, which took effect on 20 May 2013, the court confirmed Nordecon AS's obligation to make the payment because the Supreme Court had decided not to review the ruling of the circuit court in cassation and the circuit court had not changed the ruling of the county court.

Nordecon AS found that at the same time Nordecon AS may demand, based on the terms and conditions of the agreement, that an agreement be concluded for the sale of the share and that the share be transferred at the same value. Taking into account the probable current value of the share, Nordecon AS brought an action against Aivar and Marika Noormets, claiming damages of 538,520 euros. Proceedings in the matter of the claim reached the Supreme Court. By the ruling of Harju County Court, which took effect on 11 June 2014, the claim of Nordecon AS was dismissed, because the Supreme Court decided not to review the ruling of the circuit court in cassation and the circuit court did not change the ruling of the county court.

In addition, Nordecon AS has filed an action against Aivar and Marika Noormets, seeking that the compulsory execution of the ruling of Harju County Court that entered into force on 20 May 2013 be declared non-permissible. Proceedings in the matter have reached the Supreme Court. Nordecon AS considers compulsory execution non-permissible because in the opinion of Nordecon AS the claim for compensation ordered to be paid to Aivar and Marika Noormets by the ruling that took effect on 20 May 2013 has been extinguished by set-off. To secure the action, the court has suspended the compulsory execution until a ruling on the action for declaring compulsory execution non-permissible enters into force.

Nordecon AS is of the opinion that the fact that its claim for damages was dismissed does not give rise to any monetary obligations for Nordecon AS; nor does it provide any substantive information on whether or not Nordecon AS has a claim for damages against Aivar and Marika Noormets (in the matter of the action brought for declaring compulsory execution non-permissible the court may find that reciprocal claims have been set off and in that case dismissal of a separately filed claim for damages would be logical). The court has suspended the proceedings initiated for compulsory execution of the payments ordered to be made to Aivar Noormets and Marika Noormets and the existence or non-existence of an obligation to execute the relevant ruling will become clear only when the litigation in the matter of declaring compulsory execution non-permissible has ended.

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 second quarter and first half of 2014 and confirms that:

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

Jaano Vink	Chairman of the Board	7 August 2014
Avo Ambur	Member of the Board	7 August 2014
Erkki Suurorg	Member of the Board	7 August 2014