NORDECON

Financial report for the fourth quarter and twelve months of 2014

(unaudited)

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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 – 31 December 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 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 and perform contracts involving use of heavy 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 differences that emerged between Ukraine and Russia. Economic uncertainty caused the Ukrainian hryvnia to plummet against the euro. The Group’s full-year exchange losses from the weakening of the hryvnia totalled around 1.3 million euros. In recent years, the Group’s activity under its existing Ukrainian contracts has been very modest and conservative, being carried out in the capital Kiev only. In 2014, the military conflict which is raging 700 km away in eastern Ukraine did not have a direct impact on our activities, mostly because the number of local employees was already reduced to a minimum during earlier periods of the recession and we have only accepted contracts where we have been certain that the risks involved are reasonable considering the circumstances. Despite the complicated situation in the eastern regions of the country, the Group was able to increase its operations in Kiev compared with 2013.

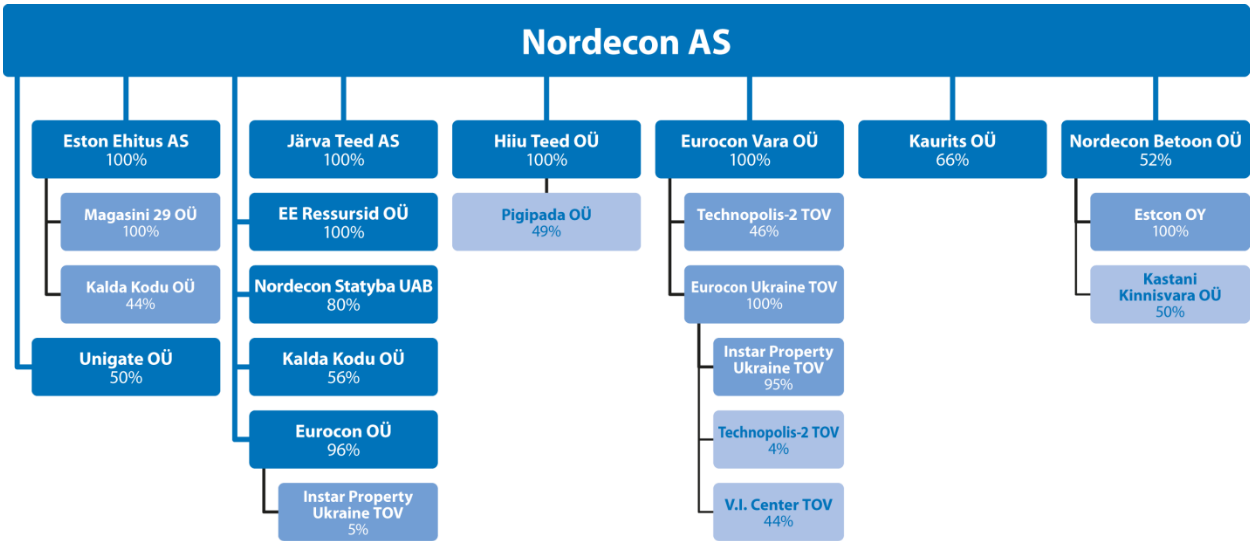
Real estate development projects that require extensive investment (we have currently stakes in two conserved development projects) remain suspended to minimise the risks until the situation in Ukraine stabilises. To secure one of the investments, the Group and its co-owners privatised the land held 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 31 December 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 ceased to conduct active business operations from 2013.

Eurocon OÜ

In line with a court ruling that took effect on 7 August 2014, Nordecon AS settled the principal claims of Aivar Noormets which amounted to 539 thousand euros and the interest accrued on them. After complying with the ruling, Nordecon AS acquired an additional 5.8% stake in Eurocon OÜ in August 2014. A further 8.2% stake in the entity was acquired in September and an 18% stake in October. At 31 December 2014, Nordecon AS's ownership interest in Eurocon OÜ was 96%.

Technopolis-2 TOV

To better manage its business risks, in August 2014 the Group's Ukrainian subsidiary Eurocon Ukraine TOV sold most of its 50% stake in Technopolis-2 TOV, an entity holding a real estate development project, to Eurocon Vara OÜ. The transaction did not change the Group's ownership interest in Technopolis-2 TOV, which remained 50% through Eurocon Vara OÜ's 46% and Eurocon Ukraine TOV's 4%.

Nordecon Statyba UAB

In December 2014, Nordecon AS acquired a 10% ownership interest from Arealis UAB, an entity of AS Nordic Contractors group, raising its stake in Nordecon Statyba UAB to 80%. The transaction, which was undertaken to further streamline the Group's structure, did not give rise to any significant costs.

Financial review

Financial performance

Nordecon group ended 2014 with a gross profit of 9,813 thousand euros (2013: 11,309 thousand euros) and a gross margin of 6.1% (2013: 6.5%). Profitability grew in the Buildings segment and dropped slightly in the Infrastructure segment.

The Group's management was conscious of the expected fall in demand and the ensuing 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 enforced measures for maintaining profitability in a situation where volumes decrease. We are aware that potential rises in input prices pose a risk for long-term contracts and continue to prioritize a contract's expected profitability over revenue growth or retention.

The Group's administrative expenses for 2014 totalled 5,656 thousand euros, 14.9% up on the year before (2013: 4,922 thousand euros). The ratio of administrative expenses to revenue was 3.5% (2013: 2.8%). The main factors that contributed to growth in administrative expenses were a rise in payroll expenses and recognition of a performance pay provision based on the Group's financial indicators. Our cost-control measures continued to yield strong results – administrative expenses remained below the target ceiling, i.e., 4% of revenue.

Operating profit for 2014 amounted to 4,015 thousand euros (2013: 5,303 thousand euros) and EBITDA (including the effect of goodwill) was 5,585 thousand euros (2013: 7,639 thousand euros).

Adverse movements in the euro/hryvnia exchange rate gave rise to exchange losses that were significantly larger than those of previous periods. The Ukrainian hryvnia weakened by around 44%, which meant that Group entities whose functional currency is the hryvnia had to re-measure their euro-denominated liabilities. The Group's exchange losses, which are reported within finance costs, totalled 1,299 thousand euros (2013: 144 thousand euros). In financial accounting, the same exchange loss gave rise to a positive 1,069 thousand-euro change in the translation reserve reported in equity (2013: a change of 106 thousand euros) and the net effect of the exchange loss on the Group's net assets was 230 thousand euros (2013: 38 thousand euros).

Thus, the Group's net profit amounted to 2,298 thousand euros (2013: 4,639 thousand euros) of which the profit attributable to owners of the parent, Nordecon AS, was 1,956 thousand euros (2013: 4,642 thousand euros).

Cash flows

Operating activities of 2014 resulted in a net cash inflow of 4,014 thousand euros (2013: a net inflow of 5,426 thousand euros). During the year, the Group signed several contracts with private sector customers which do not require the customer to make advance payments. Absence of advance payments has become quite common also in the case of public sector contracts. Amounts retained from invoices issued during the construction period that are released only when construction activity ends also reduce cash inflow. Retentions account for 5-10% of the value of a contract. Besides, cash inflow is undermined by the construction of own housing development projects. Projects completed by the Group with higher than expected profit margins resulted in larger performance bonuses and accompanying tax charges. Operating cash flows continue to be 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. We counter the cyclicality by using factoring services and overdraft facilities provided for financing our working capital needs.

Investing activities resulted in a net cash outflow of 1,013 thousand euros (2013: a net outflow of 814 thousand euros). The largest non-recurring outflows resulted from a loan of 250 thousand euros to an entity of AS Nordic Contractors group (see note 14), a payment of 180 thousand euros for purchasing the remaining shares in the subsidiary AS Eston Ehitus from the non-controlling shareholders and payments of 557 thousand euros for increasing the Group's ownership interest in Eurocon OÜ (see note 15).

Financing activities resulted in a net cash outflow of 6,771 thousand euros (2013: a net outflow of 2,226 thousand euros). Loan repayments exceeded loan receipts by 3,379 thousand euros whereas in 2013 loan receipts exceeded repayments by 470 thousand euros. The changes are mainly attributable to changes in the Group's overdraft balances and repayments made under long-term investment loans. Finance lease and interest payments declined slightly. Dividends distributed in 2014 totalled 940 thousand euros (2013: 121 thousand euros).

At 31 December 2014, the Group's cash and cash equivalents totalled 8,802 thousand euros (31 December 2013: 12,575 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	2014	2013	2012
Revenue (EUR'000)	161,289	173,651	159,422
Revenue change	-7.1%	8.9%	7.9%
Net profit (EUR'000)	2,298	4,639	1,926
Profit attributable to owners of the parent (EUR'000)	1,956	4,642	1,477
Weighted average number of shares	30,756,728	30,756,728	30,756,728
Earnings per share (EUR)	0.06	0.15	0.05
Administrative expenses to revenue	3.5%	2.8%	3.4%
EBITDA (EUR'000)*	5,585	7,639	4,833
EBITDA margin	3.5%	4.4%	3.0%
Gross margin	6.1%	6.5%	5.2%
Operating margin	2.5%	3.1%	1.7%
Operating margin excluding gains on sale of real estate	2.3%	2.9%	1.4%
Net margin	1.4%	2.7%	1.2%
Return on invested capital	5.8%	9.5%	5.2%
Return on equity	6.4%	14.2%	6.6%
Equity ratio	37.1%	33.4%	27.1%
Return on assets	4.0%	4.3%	33.7%
Gearing	24.8%	23.5%	41.1%
Current ratio	1.02	1.02	1.08
As at 31 December	**2014**	**2013**	**2012**
Order book (EUR'000)	83,544	64,286	127,259

* EBITDA for 2014 includes expenses of 192 thousand euros (2013: 348 thousand euros) from write-down of goodwill and income of 414 thousand euros from the acquisition of negative goodwill.

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

EBITDA = operating profit + depreciation and amortisation +/- changes in 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 2014, around 6% of the Group's revenue was generated outside Estonia compared with 5% in 2013.

	2014	2013	2012
Estonia	94%	95%	98%
Finland	4%	5%	2%
Ukraine	2%	0%	0%

Finnish revenues comprise revenue from concrete works performed in the building construction segment. The contribution of the Finnish market has decreased slightly and the contribution of the Ukrainian market where we started work under a new 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 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

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 may experience noticeable shrinkage.

In 2014, Nordecon's revenues totalled 161,289 thousand euros, 7% down from the 173,651 thousand euros generated in 2013. The decline is mainly attributable to the Infrastructure segment that saw shrinkage across all sub-segments, mostly because the projects supported by the EU structural funds came to an end and contract volumes dropped sharply. The revenue of the Buildings segment grew as expected through a rise in both the number and average cost of contracts secured from the private sector. We drew attention to the change already at the end of the previous financial year.

Accordingly, in 2014 the revenues of our two operating segments, Buildings and Infrastructure, amounted to 105,145 thousand euros and 51,585 thousand euros respectively. The corresponding figures for 2013 were 71,694 thousand euros and 98,550 thousand euros (see note 8).

Operating segments*	2014	2013	2012
Buildings	65%	41%	42%
Infrastructure	35%	59%	58%

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

In the directors' report, projects have been allocated to operating segments based on their nature (i.e., building or infrastructure construction). In the segment reporting presented in the financial statements, allocation is based on the subsidiaries' main field of activity (as required by IFRS 8 *Operating Segments*). In the financial statements, the results of a subsidiary that is primarily engaged in infrastructure construction are presented in the Infrastructure segment. In the directors' report, the revenues of such a subsidiary are presented based on their nature. The differences between the two reports are not significant because in general Group entities specialise in specific areas except for the subsidiary Nordecon 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 decreased and that of commercial buildings declined slightly whereas the contributions of industrial and warehouse facilities and apartment buildings increased. The segment's largest revenue contributors were contracts for the construction of commercial buildings in Tallinn (the Stroomi shopping centre, an office building in Ülemiste City and the Eesti Loto building) and Narva (an extension to the ASTRI shopping centre). In Pärnu, the Group is reconstructing Estonia Spa. 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 also in the next financial year.

The industrial and warehouse facilities sub-segment saw a structural shift. In previous years, most of the revenue resulted from agricultural projects undertaken with the EU investment support. In 2014, the share of EU-supported projects decreased visibly and the main contributors were warehouse facilities and logistics centres (e.g., the Smarten logistics centre). The work done for companies engaged in heavy industry increased as well. We do not expect the revenues of the sub-segment to increase in 2015.

The competitive situation in the public buildings sub-segment is extremely challenging: it is hard to win a contract without taking risks but our current policy is to avoid various risks. The largest projects of the year 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, phase V of St Paul's Church in Tartu and the Võru State Secondary School. Construction of the state secondary school will continue in 2015. If competition remains fierce, the revenue of the sub-segment is likely to decline.

Our apartment building revenues resulted mostly from general contracting. Major revenue contributors were the apartment buildings at Pirita tee 26 and in Kentmanni street and phase I of the Tondi residential quarter in Tallinn. The contribution of our own development projects also continues to increase. At the year-end, we completed two new apartment buildings with a total of 35 apartments in the Tammelinn district of Tartu. Sales of the apartments have been highly successful: by the year-end, 17 apartments were sold (www.tammelinn.ee). We have started preparations for the construction of phase II of the development. Most of the apartments in the Tigutorn apartment building (our other development project in Tartu) have been sold - at the year-end, only one apartment was still for sale. In Tallinn, we continue to sell apartment ownerships in phase I and build phase II of our Magasini 29 development project (www.magasini.ee).

Revenue distribution within Buildings segment	2014	2013	2012
Commercial buildings	42%	45%	26%
Industrial and warehouse facilities	33%	29%	35%
Public buildings	7%	21%	36%
Apartment buildings	18%	5%	3%

In 2014, the main revenue source in the Infrastructure segment was road construction. The average size of the sub-segment's contracts has decreased considerably and volumes are not going to regain the level of 2013 because procurement of large-scale design and construction work has been replaced by smaller reconstruction and repair projects. Still, the contribution of the sub-segment will remain the strongest, partly thanks to the performance of long-term road maintenance contracts in the Järva and Hiiu counties and the Keila maintenance area.

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

The decline in EU support due to the change of budget periods had a strong impact on our environmental engineering and utility network construction (other engineering) revenues, which decreased more rapidly than the revenues of other sub-segments. It is unlikely that the contributions of these sub-segments will remain stable in 2015. Instead, it is likely that their volumes will continue to contract because in 2014 a relatively large portion of their revenue resulted from long-term contracts secured in the previous period. Most new contracts are small.

Revenue distribution within Infrastructure segment	2014	2013	2012
Road construction and maintenance	72%	54%	51%
Specialist engineering (including hydraulic engineering)	2%	8%	15%
Other engineering	19%	26%	27%
Environmental engineering	7%	12%	7%

Order book

At 31 December 2014, our order book (backlog of contracts signed but not yet performed) stood at 83,544 thousand euros, a 30% increase compared with a year ago. Both the Buildings and the Infrastructure segment increased their order books.

The order book of the Infrastructure segment grew by 51% through work secured by the road construction sub-segment. There is a substantial amount of work signed but not yet performed under two large road construction projects - one in Tartu (design and construction work under construction package 5 of the Tartu western bypass) and the other one in Keila (reconstruction of the Keila-Valkse section of national road no. 8 Tallinn – Paldiski, km 24.9-29.5). In other sub-segments of the Infrastructure segment order books shrank considerably. The largest decrease occurred in environmental engineering but the decline in hydraulic engineering was steep as well.

The order book of the Buildings segment grew by around 23%. The commercial buildings sub-segment increased its order book substantially, mostly thanks to a rise in private sector investment. A substantial portion of work signed but not yet performed by the commercial buildings sub-segment is made up of the construction of a business building in Viimsi (Viimsi Keskus), a business building at Veerenni 24, an office building in Ülemiste City and the Eesti Loto building as well as the reconstruction of Estonia Spa.

	2014	2013	2012
Order book (EUR'000)	83,544	64,286	127,259

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 (2013: 77% and 23% respectively). The distribution is typical of the past year but radically different from earlier years when the figures for the two segments were more or less equal. It is likely that the order book will continue to reflect the change 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. The new EU budget period is likely to have an impact on the construction sector at the end of 2015 at the earliest. Hence, we expect the revenues of the Infrastructure segment to decline in 2015 (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 likely to shrink and competition continues to be fierce, the main challenge is to maintain the Group's revenue and profitability.

Between the reporting date (31 December 2014) and the date of release of this report, Group companies have secured additional construction contracts in the region of 5,678 thousand euros.

People

Staff and personnel expenses

In 2014, the Group (the parent and the subsidiaries) employed, on average, 732 people including 357 engineers and technical personnel (ETP). Workforce decreased compared with 2013 due to shrinkage in operating volumes.

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

	2014	2013	2012
ETP	357	357	367
Workers	375	400	397
Total average	**732**	**757**	**764**

The Group's personnel expenses for 2014 including all taxes totalled 20,099 thousand euros, 3% down from 2013 when the figure was 20,664 thousand euros. The slight decrease is attributable to a decline in the number of staff.

In 2014, the service fees of the members of the council of Nordecon AS amounted to 141 thousand euros and associated social security charges totalled 47 thousand euros (2013: 141 thousand euros and 47 thousand euros respectively). The provision for their performance bonuses, made based on the Group's performance indicators, amounted to 113 thousand euros and associated social security charges totalled 37 thousand euros (2013: 14 thousand euros and 4 thousand euros respectively).

The service fees of the members of the board of Nordecon AS amounted to 262 thousand euros and associated social security charges totalled 87 thousand euros (2013: 195 thousand euros and 65 thousand euros respectively). The provision for their performance bonuses, made based on the Group's performance indicators, amounted to 387 thousand euros and associated social security charges totalled 128 thousand euros (2013: 51 thousand euros and 17 thousand euros respectively).

Labour productivity and labour cost efficiency

The period's nominal labour productivity dropped because the Group's revenue decrease exceeded the decline in the number of staff. The main factors that lowered nominal labour cost efficiency were payment of performance bonuses and a rise in basic salaries.

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:

	2014	2013	2012
Nominal labour productivity (rolling), (EUR'000)	220.4	229.4	208.7
Change against the comparative period	-4.0%	9.9%	3.2%
Nominal labour cost efficiency (rolling), (EUR)	8.0	8.4	9.5
Change against the comparative period	-4.8%	-11.6%	-8.6%

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

Share and shareholders

Share information

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 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.

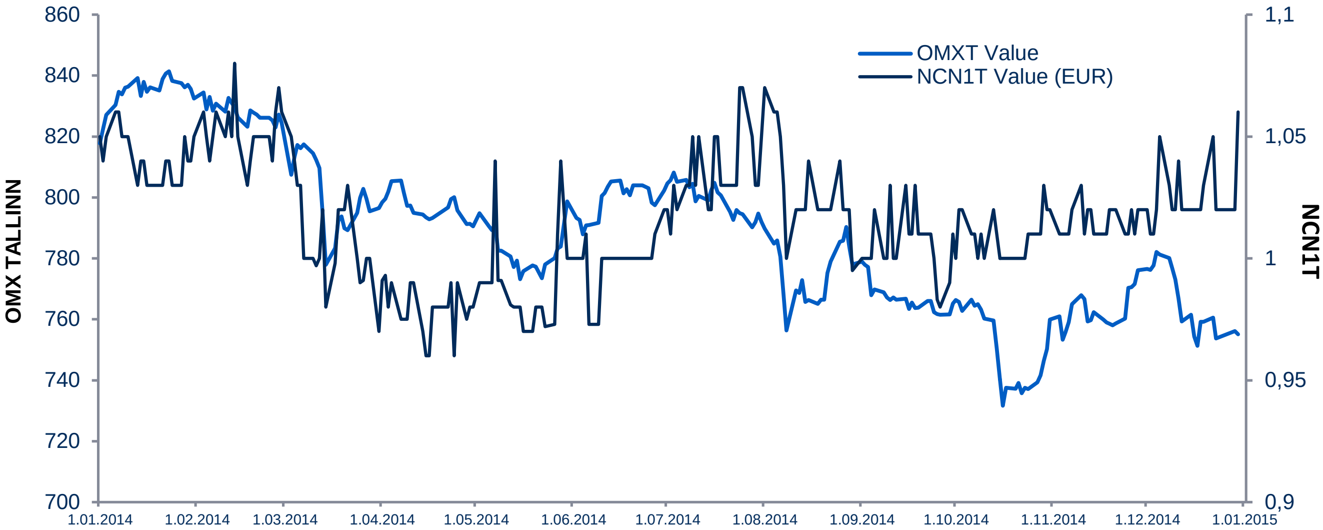
In July 2014, Nordecon AS issued 1,618,755 new shares with a total cost of 1,581,523.64 euros, increasing its share capital by 1,034,573.01 euros to 20,691,704.91 euros, and acquired the same number of own (treasury) shares for the same price. The total number of issued shares is 32,375,483. The shares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



Index/equity	1 January 2014*	31 December 2014	+/-
OMX Tallinn	817.72	755.05	-7.66%
NCN1T	EUR 1.05	EUR 1.06	0.95%

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

Summarised trading results

Share trading history (EUR)

Price	2014	2013	2012
Open	1.05	1.17	0.92
High	1.09	1.29	1.26
Low	0.93	0.99	0.88
Last closing price	1.06	1.05	1.16
Traded volume (number of securities traded)	1,799,724	2,443,809	3,425,060
Turnover, in millions	1.85	2.81	3.77
Listed volume (31 December), in thousands	32,375	30,757	30,757
Market capitalisation (31 December), in millions	34.32	32.29	35.68

Shareholder structure

Largest shareholders of Nordecon AS at 31 December 2014

Shareholder	Number of shares	Ownership interest (%)
AS Nordic Contractors	16,507,464	50.99
Luksusjaht AS	3,143,584	9.71
ING Luxembourg S.A.	2,007,949	6.20
SEB Pank AS clients	679,279	2.10
Rondam AS	660,099	2.04
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
Central Securities Depository Of Lithuania	351,024	0.81
SEB Elu- ja pensionikindlustus AS	262,000	0.81

Shareholder structure of Nordecon AS at 31 December 2014

	Number of shareholders	Ownership interest (%)
Shareholders with interest exceeding 5%	3	66.90
Shareholders with interest from 1% to 5%	6	9.69
Shareholders with interest below 1%	1,744	18.41
Holders of own (treasury) shares	1	5.00
Total	**1,754**	**100**

Shares controlled by members of the council of Nordecon AS at 31 December 2014

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
Alar Kroodo (ASM Investments OÜ)	Member of the Council	519,600	1.60
Ain Tromp	Member of the Council	478,960	1.48
Andri Hõbemägi	Member of the Council	50,000	0.15
Tiina Mõis	Member of the Council	0	0.00
Meelis Milder	Member of the Council	0	0.00
Total		**17,627,704**	**54.44**

* Companies controlled by the individual

Shares controlled by members of the board of Nordecon AS at 31 December 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	0.10
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 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 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 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 (treasury) 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 has grown visibly in almost all segments of the construction market. In 2014, public sector investment plummeted and it is not likely to recover noticeably in 2015. There is strong competitive pressure on builders' bid prices in a situation where input prices have been relatively stable. Competition is particularly fierce 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 over plain revenue growth.

Demand for construction services will remain heavily dependent on 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. In the construction market, the effects of the EU funding are not likely to kick in before the end of 2015.

In light of the above, we do not expect any significant business growth in 2015. It is probable that the volumes of the Infrastructure segment will shrink moderately 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 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 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, 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 31 December 2014, the Group's warranty provisions (including current and non-current ones) totalled 1,162 thousand euros. The figure for the comparative period was 1,546 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

In the period, the Group did not incur any major 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 2014, impairment losses on receivables amounted to 14 thousand euros (2013: 305 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 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 1.02-fold (31 December 2013: 1.02-fold). The key factors which influence the current ratio are the classification of the Group's loans to its Ukrainian associates as non-current items and the banks' general policy not to refinance interest-bearing liabilities for a period exceeding 12 months.

The political situation in Ukraine remains unstable 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 10,767 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 8,802 thousand euros (31 December 2013: 12,575 thousand euros).

Interest rate risk

The Group's interest-bearing liabilities to banks have both fixed and floating interest rates. Finance lease liabilities have mainly floating interest rates. The base rate for most floating-rate contracts is EURIBOR. At 31 December 2014, the Group's interest-bearing loans and borrowings totalled 23,733 thousand euros, a decrease of 3,445 thousand euros year over year. An important factor that contributed to the decrease was settlement of short-term bank loans and a decline in the use of factoring services. Interest expense for 2014 amounted to 1,001 thousand euros, 54 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 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).

At the beginning of 2014, the political and economic environment in Ukraine deteriorated due to the differences between Ukraine and Russia, which caused the exchange rate of the hryvnia to tumble. During the year, the hryvnia weakened against the euro by around 44%. For the Group's Ukrainian subsidiaries, this meant additional exchange losses on the translation of their euro-denominated loan commitments into the local currency. Relevant exchange losses totalled 1,299 thousand euros (2013: an exchange loss of 144 thousand euros). Exchange gains and losses on financial instruments are reported in *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 (items connected with the construction business that are denominated in hryvnias) 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 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 markedly and the extent to which they can be realised is still unclear. Although during the 2014-2020 EU budget period allocations to Estonia will increase to 5.9 billion euros (2007-2013: 4.6 billion euros), support payments that influence the construction market will not increase. Instead, compared with the previous budget period, there will be a rise in allocations not designed for tangible assets.

  Investments made by the largest public sector customers (e.g., state-owned real estate company Riigi Kinnisvara AS and the National Road Administration) which will reach signature of a construction contract in 2015 will either not increase significantly or will decrease. As a result, the Estonian construction market (particularly segments related to infrastructure construction) will remain in a relative slump. The situation will be somewhat alleviated by the positive level of private sector investments in building construction.
- The protracted and painful process of construction market consolidation will continue, 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 too large, but more slowly 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 or exit the market. In our opinion, one of the factors that is slowing down the change is the customers' (particularly the public sector customers') desire to apply increasingly laxer tendering requirements in order to increase competition and thus lower the price even though this increases the risks related to security, quality, adherence to deadlines and the 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 the 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 downshift 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.
- There is an increasing contrast between the stringent terms of public sector contracts, which encumber the builder with extensive obligations, strict sanctions, various financial guarantees, long settlement terms, etc., and the accommodating tendering requirements. Low qualification requirements and the precondition of making a low bid have made it easier to win a contract but have heightened the risks taken by the customers in respect of contract performance and delivery.
- 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 large 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 weaken the quality of the construction service/process rather than the companies' performance capabilities. Shrinkage in 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 also decline, 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 shrinkage 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 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

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 a few contracts with local investors on the premise that the terms may not involve any unjustified 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 significantly larger than a year ago. Despite the ongoing armed conflict in eastern Ukraine, for Nordecon the market situation in Kiev has not deteriorated compared with a year or two ago. Difficult times have reduced the number of inefficient local (construction) companies and when the economic situation normalises we will have much better prospects for increasing our operations. We monitor the situation in the Ukrainian construction market closely and consistently and are ready to restructure our operations if 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 conserved real estate projects or signing a construction contract with a prospective 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, have also started to deliver some more complex services. The local concrete works market allows competing for projects where the customer wishes to source 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		12 February 2015
Avo Ambur	Member of the Board		12 February 2015
Erkki Suurorg	Member of the Board		12 February 2015

Condensed consolidated interim financial statements

Condensed consolidated interim statement of financial position

EUR'000	Note	31 December 2014	31 December 2013
ASSETS			
Current assets			
Cash and cash equivalents		8,802	12,575
Trade and other receivables	2	23,243	28,101
Prepayments		1,201	1,923
Inventories	3	25,391	23,785
Total current assets		**58,637**	**66,384**
Non-current assets			
Investments in equity-accounted investees		694	566
Other investments		26	26
Trade and other receivables	2	11,211	10,645
Investment property		3,549	3,549
Property, plant and equipment	4	9,319	9,030
Intangible assets	4	14,633	14,494
Total non-current assets		**39,432**	**38,310**
TOTAL ASSETS		**98,069**	**104,694**
LIABILITIES			
Current liabilities			
Loans and borrowings	5, 6	20,588	23,875
Trade payables		26,858	26,372
Other payables		7,552	7,982
Deferred income		1,796	6,102
Provisions		799	913
Total current liabilities		**57,593**	**65,244**
Non-current liabilities			
Loans and borrowings	5, 6	3,145	3,303
Trade payables		109	156
Other payables		96	96
Provisions		759	969
Total non-current liabilities		**4,109**	**4,524**
TOTAL LIABILITIES		**61,702**	**69,768**
EQUITY			
Share capital		20,692	19,657
Own (treasury) shares		-1,582	0
Share premium		547	0
Statutory capital reserve		2,554	2,554
Translation reserve		771	-298
Retained earnings		11,714	10,681
Total equity attributable to owners of the parent		**34,696**	**32,594**
Non-controlling interests		**1,671**	**2,332**
TOTAL EQUITY		**36,367**	**34,926**
TOTAL LIABILITIES AND EQUITY		**98,069**	**104,694**

Condensed consolidated interim statement of comprehensive income

EUR'000	Note	Q4 2014	Q4 2013	12M 2014	12M 2013
Revenue	8, 9	40,353	39,220	161,289	173,651
Cost of sales	10	-39,331	-36,716	-151,476	-162,342
Gross profit		**1,022**	**2,504**	**9,813**	**11,309**
Marketing and distribution expenses		-138	-171	-558	-452
Administrative expenses	11	-1,650	-1,439	-5,656	-4,922
Other operating income	12	489	104	792	464
Other operating expenses	12	-87	-745	-376	-1,096
Operating profit/loss		**-364**	**253**	**4,015**	**5,303**
Finance income	13	252	161	738	668
Finance costs	13	-720	-140	-2,301	-1,027
Net finance costs/income		**-468**	**21**	**-1,563**	**-359**
Share of profit/loss of equity-accounted investees		-123	-343	85	-170
Profit/loss before income tax		**-955**	**-69**	**2,537**	**4,774**
Income tax		3	-40	-239	-135
Profit/loss for the period		**-952**	**-109**	**2,298**	**4,639**
Other comprehensive income					
Items that may be reclassified subsequently to profit or loss					
Exchange differences on translating foreign operations		348	56	1,069	106
Total other comprehensive income		**348**	**56**	**1,069**	**106**
TOTAL COMPREHENSIVE INCOME/EXPENSE		**-604**	**-53**	**3,367**	**4,745**
Profit/loss attributable to:					
- Owners of the parent		-651	58	1,956	4,642
- Non-controlling interests		-301	-167	342	-3
Profit/loss for the period		**-952**	**-109**	**2,298**	**4,639**
Total comprehensive income/expense attributable to:					
- Owners of the parent		-303	114	3,025	4,748
- Non-controlling interests		-301	-167	342	-3
Total comprehensive income/expense for the period		**-604**	**-53**	**3,367**	**4,745**
Earnings per share attributable to owners of the parent:					
Basic earnings per share (EUR)	7	-0.02	0.00	0.06	0.15
Diluted earnings per share (EUR)	7	-0.02	0.00	0.06	0.15

Condensed consolidated interim statement of cash flows

EUR'000	Note	12M 2014	12M 2013
Cash flows from operating activities			
Cash receipts from customers[1]		192,701	204,768
Cash paid to suppliers[2]		-163,690	-175,465
VAT paid		-5,429	-5,131
Cash paid to and for employees		-19,384	-18,647
Income tax paid		-184	-99
Net cash from operating activities		**4,014**	**5,426**
Cash flows from investing activities			
Paid on acquisition of property, plant and equipment		-355	-458
Paid on acquisition of intangible assets		-13	0
Proceeds from sale of property, plant and equipment	4	189	317
Acquisition of a subsidiary		-737	0
Acquisition of investments in associates		-44	-616
Cash from liquidation of investments in associates		1	0
Loans provided		-292	-922
Repayment of loans provided		227	245
Dividends received		4	4
Interest received		7	616
Net cash used in investing activities		**-1,013**	**-814**
Cash flows from financing activities			
Proceeds from loans received		7,815	3,440
Repayment of loans received		-11,194	-2,970
Payment of finance lease liabilities		-1,432	-1,670
Interest paid		-852	-945
Dividends paid		-940	-121
Other payments made		-168	0
Net cash used in financing activities		**-6,771**	**-2,226**
Net cash flow		**-3,770**	**2,346**
Cash and cash equivalents at beginning of period		**12,575**	**10,231**
Effect of exchange rate fluctuations on cash and cash equivalents		-3	-2
Decrease/increase in cash and cash equivalents		-3,770	2,346
Cash and cash equivalents at end of period		**8,802**	**12,575**

[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

	Equity attributable to owners of the parent								
EUR'000	**Share capital**	**Treasury shares**	**Capital reserve**	**Share premium**	**Translation reserve**	**Retained earnings**	**Total**	**Non-controlling interests**	**Total**
Balance at 31 December 2012	**19,657**	**0**	**2,554**	**0**	**-404**	**6,039**	**27,846**	**2,456**	**30,302**
Profit for the period	0	0	0	0	0	4,642	4,642	-3	4,639
Other comprehensive income	0	0	0	0	106	0	106	0	106
Dividend distribution	0	0	0	0	0	0	0	-121	-121
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	1,956	1,956	342	2,298
Other comprehensive income	0	0	0	0	1,069	0	1,069	0	1,069
Change in non-controlling interests	0	0	0	0	0	0	0	-922	-922
Dividend distribution	0	0	0	0	0	-923	-923	-81	-1,004
Balance at 31 December 2014	**20,692**	**-1,582**	**2,554**	**547**	**771**	**11,714**	**34,696**	**1,671**	**36,367**

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 31 December 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.

Share-based payments

The option agreements signed with the Group's key personnel are accounted for as consideration provided in the form of equity instruments for services rendered to the Group. Owing to the difficulty of measuring directly the fair value of services received by the Group, the fair value of services received from the Group's key personnel is measured by reference to the fair value of the equity instruments granted at grant date. The cost of equity-settled share-based payment transactions is recognised as an expense and a corresponding increase in equity over the periods in which the employee renders the services until the vesting date. At each reporting date, the Group recognises expenses from share-based payment transactions based on an estimate of the number of equity instruments expected to vest. Any change in the cumulatively calculated consideration since the beginning of the reporting period is recognised as an expense or income in the statement of comprehensive income, as appropriate. The grant of share options is conditional upon the member of the key personnel remaining in the Group's employ until the vesting date and the satisfaction of certain performance conditions.

The fair value of the share option plan designed for the Group's key personnel is measured by independent appraisers. The fair value of the share options and the rights arising from the share appreciation (increase in the share price) is measured using the Bermuda model. The pricing inputs used include: the current price of the underlying shares at the measurement date, the exercise price of the option, the expected volatility of the share price, the life of the option, the risk-free interest rate and the dividends expected on the shares.

According to management's assessment, the condensed consolidated interim financial statements of Nordecon AS for the fourth quarter and twelve months 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	31 December 2014	31 December 2013
Current portion			
Trade receivables		13,435	17,255
Retentions receivable		858	3,541
Receivables from related parties		2	138
Loans to related parties	14	2,116	1,786
Miscellaneous receivables		1,505	1,733
Total receivables and loans provided		**17,916**	**24,453**
Due from customers for contract work		5,327	3,648
Total trade and other receivables		**23,243**	**28,101**

EUR'000	Note	31 December 2014	31 December 2013
Non-current portion			
Loans to related parties	14	10,768	10,267
Receivables from related parties		0	61
Miscellaneous long-term receivables		443	317
Total trade and other receivables		**11,211**	**10,645**

NOTE 3. Inventories

EUR'000	31 December 2014	31 December 2013
Raw materials and consumables	3,963	3,623
Work in progress	7,240	5,061
Goods for resale and properties held for development	13,718	14,223
Finished goods	470	878
Total inventories	**25,391**	**23,785**

NOTE 4. Property, plant and equipment and intangible assets

Property, plant and equipment

In 2014, the Group did not conduct any significant transactions with items of property, plant and equipment. The period's additions totalled 2,299 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 189 thousand euros (see the statement of cash flows) and sales gain on the transactions amounted to 256 thousand euros (note 12).

Intangible assets

In 2014, goodwill increased by 93 thousand euros 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	31 December 2014	31 December 2013
Finance lease liabilities at end of reporting period	**4,254**	**3,834**
Of which payable in not later than 1 year	1,211	1,076
Of which payable later than 1 year and not later than 5 years	3,043	2,758
Base currency EUR	4,254	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	12M 2014	12M 2013
Principal payments made during the period	1,432	1,670
Interest payments made during the period	135	143

Operating lease payments made

EUR'000	12M 2014	12M 2013
Payments made for cars	661	641
Payments made for construction equipment	2,562	2,005
Payments made for premises	682	521
Payments made for software	247	259
Total operating lease payments made	**4,152**	**3,426**

NOTE 6. Loans and borrowings

Short-term loans and borrowings

EUR'000	Note	31 December 2014	31 December 2013
Current portion of long-term loans		8,586	8,575
Current portion of finance lease liabilities	5	1,211	1,076
Short-term bank loans		7,938	10,849
Factoring liabilities		2,853	3,375
Total short-term loans and borrowings		**20,588**	**23,875**

Long-term loans and borrowings

EUR'000	Note	31 December 2014	31 December 2013
Long-term bank loans		102	545
Finance lease liabilities	5	3,043	2,758
Total long-term loans and borrowings		**3,145**	**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	12M 2014	12M 2013
Profit for the period attributable to owners of the parent	1,956	4,642
Weighted average number of shares (in thousands)	30,757	30,757
Basic earnings per share (EUR)	0.06	0.15
Diluted earnings per share (EUR)	0.06	0.15

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 on preparing segment reporting.

The chief operating decision maker assesses the performance of an operating segment and the utilisation of the resources allocated to it through the profit generated by the segment. The profit of an operating segment is its gross profit that does not include any major exceptional expenditures (such as non-recurring asset write-downs).

The expenses after the gross profit of an operating segment (including marketing and distribution and administrative expenses, interest expense, income tax expense) are not used by the chief operating decision maker to assess the performance of the segment on the basis of internally generated financial information.

12 months

EUR'000 12 months 2014	Buildings EU	Buildings UKR	Infrastructure EU	Other segments	Total
Total revenue	101,981	3,197	51,958	5,784	162,920
Inter-segment revenue	-33	0	-373	-2,284	-2,690
Revenue from external customers	**101,948**	**3,197**	**51,585**	**3,500**	**160,230**
Gross profit of the segment	**7,260**	**22**	**3,528**	**319**	**11,129**

EUR'000 12 months 2013	Buildings EU	Buildings UKR	Infrastructure EU	Other segments	Total
Total revenue	70,917	822	98,983	4,323	175,045
Inter-segment revenue	0	-45	-433	-2,432	-2,910
Revenue from external customers	**70,917**	**777**	**98,550**	**1,891**	**172,135**
Gross profit of the segment	**4,029**	**171**	**7,550**	**475**	**12,225**

Fourth quarter

EUR'000 Q4 2014	Buildings EU	Buildings UKR	Infrastructure EU	Other segments	Total
Total revenue	27,365	1,078	10,637	1,388	40,468
Inter-segment revenue	12	0	-3	-434	-425
Revenue from external customers	**27,377**	**1,078**	**10,634**	**954**	**40,043**
Gross profit/loss of the segment	**1,020**	**-40**	**340**	**104**	**1,424**

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

Reconciliation of segment revenues

EUR'000	12M 2014	Q4 2014	12M 2013	Q4 2013
Total revenues for reportable segments	157,136	39,080	170,722	38,692
Revenue for other segments	5,784	1,388	4,323	957
Elimination of inter-segment revenues	-2,690	-425	-2,910	-858
Unallocated revenue	1,059	310	1,516	429
Total consolidated revenue	**161,289**	**40,353**	**173,651**	**39,220**

Reconciliation of segment profit

EUR'000	12M 2014	Q4 2014	12M 2013	Q4 2013
Total profit for reportable segments	10,810	1,320	11,750	2,810
Total profit for other segments	319	104	475	55
Elimination of inter-segment profits and losses	-16	-4	-10	-4
Unallocated profits and losses	-1,300	-398	-906	-357
Consolidated gross profit	**9,813**	**1,022**	**11,309**	**2,504**
Unallocated expenses:				
Marketing and distribution expenses	-558	-138	-452	-171
Administrative expenses	-5,656	-1,650	-4,922	-1,439
Other operating income and expenses	416	402	-632	-641
Consolidated operating profit/loss	**4,015**	**-364**	**5,303**	**253**
Finance income	738	252	668	161
Finance costs	-2,301	-720	-1,027	-140
Share of profit/loss of equity-accounted investees	85	-123	-170	-343
Consolidated profit/loss before tax	**2,537**	**-955**	**4,774**	**-69**

NOTE 9. Segment reporting – geographical information

EUR'000	12M 2014	Q4 2014	12M 2013	Q4 2013
Estonia	151,739	37,768	164,303	33,028
Ukraine	3,197	1,078	822	684
Finland	6,565	1,495	8,571	5,505
Inter-segment eliminations	-212	12	-45	3
Total revenue	**161,289**	**40,353**	**173,651**	**39,220**

NOTE 10. Cost of sales

EUR'000	12M 2014	12M 2013
Cost of materials, goods and services used	132,869	142,279
Personnel expenses	16,695	18,026
Depreciation and amortisation expense	1,762	1,818
Other expenses	150	219
Total cost of sales	**151,476**	**162,342**

NOTE 11. Administrative expenses

EUR'000	12M 2014	12M 2013
Personnel expenses	3,404	2,638
Cost of materials, goods and services used	2,093	1,994
Depreciation and amortisation expense	30	170
Other expenses	129	120
Total administrative expenses	**5,656**	**4,922**

NOTE 12. Other operating income and expenses

EUR'000	12M 2014	12M 2013
Other operating income		
Gain on sale of property, plant and equipment	256	272
Negative goodwill	414	0
Foreign exchange gain	0	3
Other income	122	189
Total other operating income	**792**	**464**

EUR'000	12M 2014	12M 2013
Other operating expenses		
Loss on disposal of property, plant and equipment	7	14
Write-down of properties held for development and investment properties	0	330
Write-down of goodwill	192	348
Foreign exchange loss	0	1
Net loss on recognition and reversal of impairment losses on receivables	14	305
Other expenses	163	98
Total other operating expenses	**376**	**1,096**

NOTE 13. Finance income and costs

EUR'000	12M 2014	12M 2013
Finance income		
Interest income on loans	634	618
Foreign exchange gain	96	37
Other finance income	8	13
Total finance income	**738**	**668**

EUR'000	12M 2014	12M 2013
Finance costs		
Interest expense	1,001	1,055
Foreign exchange loss	1,299	144
Other finance costs	1	-172
Total finance costs	**2,301**	**1,027**

NOTE 14. Transactions with related parties

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

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

Purchase and sales transactions conducted with related parties during the period

EUR'000		12M 2014		12M 2013
Volume of transactions performed	**Purchases**	**Sales**	**Purchases**	**Sales**
AS Nordic Contractors	350	0	319	0
Companies of AS Nordic Contractors group	3	7	6	691
Equity-accounted investees	1,505	22	1,170	26
Companies related to members of the council	294	0	53	254
Total	**2,152**	**29**	**1,548**	**971**

EUR'000		12M 2014		12M 2013
Nature of transactions performed	**Purchases**	**Sales**	**Purchases**	**Sales**
Construction services	1,820	0	1,170	685
Lease and other services	332	29	378	286
Total	**2,152**	**29**	**1,548**	**971**

During the reporting period, the Group gave a company of AS Nordic Contractors group a loan of 250 thousand euros (2013: nil euros). In the period, the Group recognised interest income on loans to associates of 490 thousand euros (2013: 505 thousand euros), on loans to joint ventures of 114 thousand euros (2013: 113 thousand euros) and on a loan to a company of AS Nordic Contractors group of 9 thousand euros (2013: nil euros).

Receivables from and liabilities to related parties

	31 December 2014		31 December 2013	
EUR'000	**Receivables**	**Liabilities**	**Receivables**	**Liabilities**
AS Nordic Contractors	1	9	0	9
Companies of AS Nordic Contractors group – receivables	0	0	1	0
Companies of AS Nordic Contractors group – loans and interest	256	0	0	0
Associates - receivables	1	0	137	167
Associates – loans and interest	10,829	0	10,385	0
Joint ventures – loans and interest	1,799	0	1,668	0
Total	**12,886**	**9**	**12,191**	**176**

Remuneration of the council and the board

In 2014, the service fees of the members of the council of Nordecon AS amounted to 141 thousand euros and associated social security charges totalled 47 thousand euros (2013: 141 thousand euros and 47 thousand euros respectively). The provision for their performance bonuses, made based on the Group's performance indicators, amounted to 113 thousand euros and associated social security charges totalled 37 thousand euros (2013: 14 thousand euros and 4 thousand euros respectively).

The service fees of the members of the board of Nordecon AS amounted to 262 thousand euros and associated social security charges totalled 87 thousand euros (2013: 195 thousand euros and 65 thousand euros respectively). The provision for their performance bonuses, made based on the Group's performance indicators, amounted to 387 thousand euros and associated social security charges totalled 128 thousand euros (2013: 51 thousand euros and 17 thousand euros respectively).

NOTE 15. Transactions with shares in subsidiaries

In January 2014, Nordecon AS acquired from the non-controlling shareholders 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 was not written down.

In September 2014, Nordecon AS acquired from the non-controlling shareholders additional shares, i.e., a further 14% stake, in Eurocon OÜ. The transaction raised Nordecon AS's interest in Eurocon OÜ to 78%.

Cost of the transaction and goodwill acquired

	EUR'000
Cost of interest acquired	539
Fair value of net assets acquired	411
Goodwill	**128**

The goodwill of 128 thousand euros was written down and the write-down was recognised within other operating expenses.

In October 2014, Nordecon AS acquired from the non-controlling shareholders additional shares, i.e., a further 18% stake, in Eurocon OÜ. The transaction raised Nordecon AS's interest in Eurocon OÜ to 96%.

Cost of the transaction and negative goodwill acquired

	EUR'000
Cost of interest acquired	18
Fair value of net assets acquired	432
Negative goodwill	**-414**

The negative goodwill of 414 thousand euros was recognised within other operating income.

In December 2014, Nordecon AS acquired from the non-controlling shareholders additional shares, i.e., a further 10% stake, in Nordecon Statyba UAB. The transaction raised Nordecon AS's interest in Nordecon Statyba UAB to 80%.

Cost of the transaction and goodwill acquired

	EUR'000
Cost of interest acquired	62
Fair value of net assets acquired	-2
Goodwill	**64**

The goodwill of 64 thousand euros was written down and the write-down was recognised within other operating expenses.

NOTE 16. Share-based payments

The annual general meeting that convened in 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. The numbers of shares that may be subscribed for under the share option agreements signed with the members of the Group's executive management differ by person.

A person eligible to the option plan may exercise an option 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 accordance with the procedure specified in the option agreement and the terms and conditions of the option plan as approved by the general meeting of Nordecon AS. Eligible persons may not transfer the share options granted to them. 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).

Under the share option plan, Nordecon AS has granted options for acquiring a total of 1,618,755 ordinary shares in Nordecon AS.

The share capital of Nordecon AS was increased by 1,035 thousand euros by issuing 1,618,755 new shares without par value. The new shares were issued at a premium of 547 thousand euros. The issue price of the shares was 0.977 euros per share.

At the grant date, the fair value of the share options was measured using the Bermuda model. The pricing inputs that were taken into account included: the current price of the underlying shares at the measuring date (1 euro), the exercise price of the option (0.977 euros), the expected volatility of the share price (30%), the life of the option (37 months), the risk-free interest rate (0.323%) and the dividends expected on the shares.

NOTE 17. Events after the reporting period

On 6 February 2015 (the date of signature of the new entity's memorandum of association), Nordecon AS acquired a 60% stake in SweNCN OÜ (an entity under establishment). The remaining 40% stake was acquired by Luksusjaht AS, which has a 9.8499% interest in Nordecon AS. The sole owner of Luksusjaht AS, Sven Lennart Alpstål, has a 0.0917% interest in Nordecon AS.

The planned core business of SweNCN OÜ is construction of residential and non-residential buildings in central Sweden through a wholly-owned subsidiary to be established in Sweden. At the date of establishment, the share capital of SweNCN OÜ amounts 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.

On 3 February 2015 (the date of signature of the new entity's memorandum of association), Nordecon AS acquired a 46% stake in Embach Ehitus OÜ (an entity under establishment). According to plan, Embach Ehitus OÜ is going to operate as a contractor in the building construction segment. It 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 amounts to 2,500 euros. Nordecon AS made the investment to be able to respond flexibly to changes in the construction market and to move closer to prospective customers.

Statements and signatures

Statement of management's responsibility

The board of Nordecon AS acknowledges its responsibility for the preparation of the Group's condensed consolidated interim financial statements for the fourth quarter and twelve months of 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	12 February 2015
Avo Ambur	Member of the Board	12 February 2015
Erkki Suurorg	Member of the Board	12 February 2015