NORDECON

Group annual report 2016

Business name	Nordecon AS
Registry number	10099962
Address	Pärnu mnt 158/1, 11317 Tallinn, Estonia
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 2016 – 31 December 2016
Council	Toomas Luman (chairman of the council), Andri Hõbemägi, Vello Kahro, Sandor Liive, Meelis Milder
Board	Jaano Vink (chairman of the board), Avo Ambur, Erkki Suurorg
Auditor	KPMG Baltics OÜ

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Nordecon Group at a glance

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 business 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 which support the core business such as road maintenance, concrete works and other services that provide added value, improve our operating efficiency and help manage 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, we are involved in the construction of concrete structures, leasing out heavy construction equipment, and road maintenance.

Besides Estonia, Group entities operate in Sweden, Finland, and Ukraine.

Nordecon AS is a member of the Estonian Association of Construction Entrepreneurs and the Estonian Chamber of Commerce and Industry and has been awarded international quality management certificate ISO 9001, international environment management certificate ISO 14001 and international occupational health and safety certificate OHSAS 18001.

Nordecon AS's shares 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 support employee development through needs-based training and career opportunities consistent with their experience. We value our people and provide them with a modern work environment that encourages creativity and a motivation system that fosters initiative.

Letter from chairman of the council

In April 2016, Nordecon's council approved the Group's new strategy and financial plan until the year 2020. The objective of the five-year period is to shift Nordecon Group's business focus on the Baltics and Scandinavia, specifically on growth through geographical expansion and operating efficiency as a general contractor in the construction market. Naturally, Estonia where Nordecon is one of the market leaders will remain our home market but we intend to become much more active in the neighbouring countries where the construction sector is a strong contributor to economic growth.

Accordingly, in 2016 we started operations in the Swedish construction market. To illustrate the choice – since 2009 the revenues of construction companies operating in the Swedish market have grown on an annual basis and in half of those years the Swedish construction market's growth alone has exceeded the total output of the Estonian construction market. Our first year in Sweden went as planned. Operating volumes remained slightly below target but cooperation with customers provided us with an opportunity to consider our first steps carefully and to adapt to the demands of the new market.

There is also every reason to be satisfied with Nordecon's overall performance in 2016. Besides export revenues, the Group increased its domestic sales even though the pressure on profit margins was somewhat stronger than anticipated. On the whole, Nordecon is well positioned to achieve the targets set for 2017 both from the point of view of the economic environment and its long-term financial plan.

However, it is important to remember that careful planning and smart use of resources are also important during the growth cycle. As a rule, high productivity in the core business translates into a high rate of return in the equity market. Strong financial performance provides an opportunity to meet and even exceed investors' expectations, as can be seen by the development of Nordecon's share price in 2016. Nordecon will continue to work towards its key goals – to harness its best construction skills and expertise, to translate the expertise into financial success, and to share the success with its shareholders.

Toomas Luman

Chairman of the Council

Group chief executive's letter

In contrast to previous years, when the construction market contracted, 2016 saw a certain recovery in Estonia and more upbeat prospects also in the neighbouring construction markets. Although there was no upsurge in business volumes, there was a clear change in climate and construction companies did quite well. In the last quarter of the year, the first procurement tenders for projects receiving funding from the European Union during the current budget period were finally carried out. This indicates that the standstill should be over. However, during the year builders had to rely mainly on private investment in building construction, specifically housing development.

Nordecon Group began the year with a fairly strong order book in Estonia and new contracts in the Swedish market. We directed our main efforts on selected construction markets where we expected bigger improvement and today we may say that on the whole our choices were justified – there was enough business to go around although competition remained stiff, particularly in Estonia. Thanks to achieving strong revenue growth we were able to maintain our profit figures at the same level as last year even though margins declined. Nordecon's revenue rose to 183 million euros while the gross margin slipped to 6.0%. Similarly to recent years, our net profit was influenced by the economic and political situation in Ukraine. However, the impacts of the latter have lessened and hopefully in the next few years the negative trend will break. In 2016, our operations in Ukraine continued to be underpinned by confidence that in the longer term the vast Ukrainian market will open up opportunities for us.

Despite positive developments in foreign markets we generated most of our revenue, i.e., 169 million euros, in our home market Estonia. Regrettably, in the infrastructure segment only the road maintenance sub-segment had sufficient business while all other sub-segments had to rely on the hope that the situation would improve. However, we are very pleased that at the time of rapid volume growth and start-up of business in a new market we succeeded in further improving our efficiency and increasing our nominal labour productivity per employee by 27%. The fact that the future is encouraging for construction companies is also reflected in our order book which grew year over year, to 131 million euros at the year-end.

Traditionally, a builder's reputation is based on the ability to deliver high-quality buildings and infrastructure assets on time. In 2016, Nordecon delivered numerous quality projects such as the reconstruction of Majaka street, the Veerenni office building and the retail and leisure complex Arsenal Keskus in Tallinn, the building of Järveküla school and an extension to Smarten's logistics centre in Rae parish, Vecta Design's production building in Pärnu, and the Lepse street residential quarter in Kiev. We are proud that our specialists contributed to strengthening Estonia's internal security and defence capabilities by completing a new building for the Piusa border guard station, barracks for the Tapa military base and a building complex for the Ämari air base.

Although our focus is on offering quality construction services, we are increasingly balancing our portfolio with housing development. Last year, people moved to new top-quality apartments in our Uus-Tammelinn development project in Tartu and our Magasini development project in Tallinn. We will continue to sell apartments in both projects also in 2017. In addition, we have started to build and sell apartments in two new buildings in our Hane street development in Tallinn.

There are signs that in the next few years construction companies will have somewhat more work. The key target will be to maintain profitability in a competitive environment. Nordecon is ready for the challenge and resilient enough to adapt when this is required by market conditions. I wish our team and shareholders faith in both themselves and a capable company which is moving to the next level of development in order to offer all stakeholders an opportunity to be satisfied and take pride in the results of its work.

Jaano Vink

Chairman of the Board

Directors' report

Strategic agenda for 2016-2020

The Group's strategic business agenda and targets for the period 2016-2020

Business activities until 2020

- The Group will grow, mostly organically, with a focus on more efficient use of its existing resources.
- In Estonia, we will compete in both the building and the infrastructure construction segments.
- Our Estonian entities will be among their segments' market leaders.
- In Sweden, we will focus on general contracting in Stockholm and the surrounding area.
- In Finland, we will focus on general contracting and concrete works in Helsinki and the surrounding area.
- In Ukraine, we will focus on general contracting primarily in Kiev and the surrounding area.

Employees until 2020

- We expect the TRI*M Index, which reflects employee satisfaction and commitment, to improve across the Group by 3 percentage points per year on average.
- We value balanced teamwork where youthful energy and drive complement long-term experience.
- We will recognise employees that are dedicated and responsible and contribute to the Group's success.
- We expect to raise operating profit per employee to at least 12 thousand euros.

Financial targets until 2020

- Revenue will grow at least 10% per year.
- The contribution of foreign markets will increase to 25% of revenue.
- Our own housing development revenue will account for at least 5% of our Estonian revenue.
- Operating margin for the year will be consistently above 3%.
- On average, at least 30% of profit for the year will be distributed as dividends.
- Return on invested capital (ROIC) will average 13%.

The Group's operations in Estonia and foreign markets

Estonia

During the year, the Group was involved in building and infrastructure construction, being active in practically all market sub-segments. A significant share of the core business was conducted by the parent, Nordecon AS, which is also 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.

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 and Kose maintenance areas in Harju county and in Järva and Hiiu counties (delivered by Nordecon AS, Järva Teed AS and Hiiu Teed OÜ).

We did not enter any new operating segments in Estonia.

Foreign markets

Ukraine

The conflict between Ukraine and Russia, which broke out at the beginning of 2014, continued to influence Ukraine's political and economic environment also in 2016. Economic uncertainty continued to weaken the Ukrainian hryvnia against the euro. However, compared with the year before, the weakening of the hryvnia slowed. In recent years, our bidding activities in Ukraine have been intentionally conservative, with work undertaken in the capital Kiev and the surrounding area only. The ongoing military conflict, around 700 km away in eastern Ukraine, has not had a direct impact on our operations, mostly because we right-sized the workforce during earlier periods of recession already and have accepted only contracts where the risks have been reasonable under the circumstances. The situation in the Kiev region has stabilised, considering the backdrop, and companies have adapted to the new environment. In 2016, our business volumes in Ukraine were comparable to the year before.

Real estate development activities which require major investment remain suspended to minimise the risks until the situation improves (we have currently stakes in two development projects that have been put on hold). To safeguard their investments and secure their loans, the Group and the co-owners have privatised and created mortgages on the plots owned by the associate V.I. Center TOV.

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 services in the concrete work sector.

Sweden

In contrast to 2015 when the main focus was on preparatory activities, in 2016 we began performing two construction contracts (as the general contractor). In the future, we are going to focus on both developing the organisation and enhancing sales in order to win new contracts.

Latvia and Lithuania

During the period, there were no changes in our Latvian operations. We have no subsidiaries incorporated in Latvia and no construction work in progress in Latvia.

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

Performance by geographical market

In 2016, Nordecon earned around 7% of its revenue outside Estonia compared with 4% the year before. The contribution of foreign markets increased through revenue generated in Sweden. The contribution of the Ukrainian market remained stable. Finnish revenues resulted from concrete works in the building construction segment.

	2016	2015	2014	2013	2012
Estonia	93%	96%	94%	95%	98%
Sweden	4%	0%	0%	0%	0%
Ukraine	2%	3%	2%	0%	0%
Finland	1%	1%	4%	5%	2%

Geographical diversification of the revenue base is a consciously deployed strategy by which we mitigate the risks resulting from excessive reliance on one market. However, conditions in some of our selected foreign markets are also volatile and affect our current results. Increasing the contribution of foreign markets is on Nordecon's strategic agenda. Our vision of our foreign operations is described in the chapter *Outlooks of the Group's geographical markets*.

Performance by business line

The core business of Nordecon Group is general contracting and project management in the field of building and infrastructure construction. The Group is involved in the construction of commercial, industrial, and apartment buildings, road construction and maintenance, specialist and environmental engineering, concrete works, and housing development.

Nordecon's revenue for 2016 amounted to 183,329 thousand euros, a roughly 26% increase on the 145,515 thousand euros generated in 2015. The overall shrinkage of the infrastructure construction market also affected our revenue structure. As anticipated, the Buildings segment improved its revenue, posting growth of around 43%, primarily thanks contracts secured in the apartment buildings and the public buildings sub-segments. The revenue of the Infrastructure segment, which was mostly earned in the road construction and maintenance sub-segment, decreased by around 13% year on year. The decline resulted from a lack of large-scale road construction projects with a reasonable estimated profit margin. In the comparative period, we had two major road construction projects which generated a substantial amount of revenue (construction package 5 of the Tartu western bypass and the Keila-Valkse section of national road no. 8 Tallinn-Paldiski, km 24.9-29.5). However, mostly thanks to a new asphalt concrete plant acquired at the beginning of the year, we were able to more than double our asphalt concrete sales. Revenue from the sale of asphalt concrete grew to 2,062 thousand euros (2015: 899 thousand euros).

We strive to maintain the revenues of our operating segments (Buildings and Infrastructure) in balance as this helps diversify risks and provides better opportunities for continuing construction operations in more challenging circumstances where the volumes of one sub-segment may fall sharply while another begins to grow more rapidly.

Estonian construction market in 2016

According to preliminary data released by Statistics Estonia, in 2016 Estonian construction companies' total output (measured in current prices) was 2,100 million euros, a 3% increase on 2015. Building construction output was around 1,400 million euros and infrastructure construction output around 656 million euros. Output grew after a two-year decline. The construction market was strongly affected by infrastructure construction where output dropped by around a tenth compared with 2015. Renovation and reconstruction of buildings decreased as well. However, construction of new buildings sustained growth, increasing by 9% year on year. The output of Estonian construction companies' foreign operations grew by 3% year on year, primarily through building construction. Foreign operations accounted for 11% of Estonian construction companies' total output for 2016.

In building construction, growth was mainly underpinned by investments made by the private sector and continuing recovery of the real estate market. The number of new dwellings grew for the fifth consecutive year. In 2016, 4,732 new dwellings received a permit of use, a rise of 763 on the year before (2015: 3,969). Most of them were in apartment buildings located in and around Tallinn and in Tartu. There continues to be demand for new quality housing in prime locations. Construction permits were issued for 6,021 new dwellings (2015: 5,588). Both the number and usable area of non-residential premises which received a permit of use increased year on year. The number of non-residential premises that received a permit of use was 1,060 and their total usable area was 771,000 square metres (2015: 1,071 and 626,700 respectively). Growth was the strongest in new commercial, warehouse, and industrial premises segments.

Construction output*	2015	2014	2013	2012	2011	2010	2009
Construction output in Estonia, in EUR millions	2,114	2,186	2,221	2,046	1,660	1,275	1,515
Of which buildings	1,366	1,384	1,332	1,222	958	718	902
Of which infrastructure assets	748	802	889	824	702	557	613

* Source: Statistics Estonia. The figures in the table are adjusted annual statistics, which are more precise than quarterly preliminary statistics.

Segment revenues

In 2016, the Buildings segment and the Infrastructure segment generated revenue of 134,555 thousand euros and 41,447 thousand euros respectively. The corresponding figures for 2015 were 94,341 thousand euros and 47,628 thousand euros (see note 25). Since a substantial share of Nordecon's revenue was earned in Estonia, our revenue structure reflects quite fairly the overall situation in the Estonian construction market.

Revenue by segment*

Operating segments	2016	2015	2014	2013	2012
Buildings	73%	64%	65%	41%	42%
Infrastructure	27%	36%	35%	59%	58%

* In the *Directors' report*, the Ukrainian buildings segment and the EU buildings segment, which are disclosed separately in the consolidated 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 consolidated financial statements, allocation is based on the subsidiaries' main field of activity (as required by IFRS 8 *Operating Segments*). In the consolidated 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 annual report based on the nature of the work.

Sub-segment revenues

Compared with the year earlier, the revenue structure of the Buildings segment changed considerably. In 2016, the segment's strongest revenue contributors were the apartment buildings and the public buildings sub-segments.

We earned most of our apartment building revenue as a general contractor. In Estonia, a substantial share of our apartment building projects is located in Tallinn. In 2016, the main revenue contributors were the three phases of the Pikksilma homes in Kadriorg and the Meerhof 2.0 apartment complex at Pirita tee 20a. The contributions of foreign markets sustained growth. In Ukraine, we continued to build the Lepse residential quarter in Kiev, which is close to completion, and a residential quarter in the city of Brovary in the Kiev region. In Sweden, we were building two apartment buildings in Stockholm.

The contribution of our own development projects in Tartu and Tallinn (reported in the apartment buildings sub-segment) continues to increase slowly but surely. In 2016, our development projects generated revenue of 5,180 thousand euros (2015: 4,177 thousand euros). We have completed 5 apartment buildings in the first four development phases of our Tammelinn project in Tartu and sales have been highly successful. At the reporting date, only 2 completed apartments were still for sale. At the beginning of 2017, we began building phase V which comprises a four-floor apartment building with 24 apartments (www.tammelinn.ee). By the year-end, we had also sold 16 of the 20 apartments in the first three phases of our Magasini 29 development project in Tallinn, 5 of them in 2016 (www.magasini.ee). We continue to build the development's fifth and last terraced house. In September 2016, we began building two apartment buildings with a total of 30 apartments in Hane street in Tallinn. In carrying out our development activities, we monitor potential risks in the housing development market that stem from rapid growth in the supply of new housing as well as a relative increase in input prices.

The key factor which influenced the performance of the public buildings sub-segment was growth in the state's investment in national defence. In 2016, we completed the construction of a new building for the Piusa border guard station, barracks for the Tapa military base, and a building complex for the Ämari air base. In addition, we delivered to the customer the new building of Järveküla school. We continue the design and construction of the Lintsi warehouse complex and the reconstruction of Ugala Theatre in Viljandi.

The volumes of the commercial buildings sub-segment, which used to dominate the Buildings segment for a long time, have declined considerably. We anticipated the shrinkage already at the end of 2015. In 2016, we completed and delivered on time the Veerenni office building and the retail and leisure complex Arsenal Keskus in Tallinn.

We continue to build the office and retail complex Viimsi Äritare and renovate the machinery hall building of the historical Luther furniture factory and have started to build an office building at Lõõtsa 12 in Ülemiste City. Based on our order book, we expect the commercial buildings sub-segment to deliver certain revenue growth in 2017.

Our industrial and warehouse facilities revenues grew year on year. Private investment in industrial and warehouse buildings increased. The period's largest projects included construction of a warehouse for Riigiressursside Keskus in Tallinn, a production facility for Vecta Design in Pärnu, a cereals storage and handling complex foe the KEVILI South Terminal and an extension for the Smarten warehouse. We continue to build production and warehouse facilities for Harmet at Kumna, near Tallinn.

Revenue of the Buildings segment	2016	2015	2014	2013	2012
Apartment buildings	34%	22%	18%	5%	3%
Public buildings	30%	16%	7%	21%	36%
Industrial and warehouse facilities	20%	12%	33%	29%	35%
Commercial buildings	16%	50%	42%	45%	26%

Similarly to previous years, in 2016 the main revenue source in the Infrastructure segment was road construction where we had mostly medium-sized and small projects. The largest road construction projects were the reconstruction of the Meoma-Alatskivi and Rannamõisa-Kloogaranna road sections and the reconstruction of Majaka and Logi streets in Tallinn. Work on the latter will continue in 2017. We continue to render road maintenance services in the Järva and Hiiu counties and the Keila and Kose maintenance areas of the Harju county. Kose is a new area, where work started in February 2016. We also provided the State Forest Management Centre with forest road improvement services. We believe that road construction will remain the main revenue source in the Infrastructure segment also in 2017 but it is unlikely that the sub-segment's revenue would grow substantially compared to 2016.

The contracts secured by our environmental engineering and other engineering (utility network construction) sub-segments are small and growth of the sub-segments is unlikely. At present, there is no sign of any major hydraulic engineering projects to be announced in the specialist engineering sub-segment and demand for other complex engineering work also tends to be irregular.

Revenue of the Infrastructure segment	2016	2015	2014	2013	2012
Road construction and maintenance	86%	81%	72%	54%	51%
Other engineering	9%	14%	19%	26%	27%
Environmental engineering	5%	4%	7%	12%	7%
Specialist engineering (including hydraulic engineering)	0%	1%	2%	8%	15%

Selection of completed projects

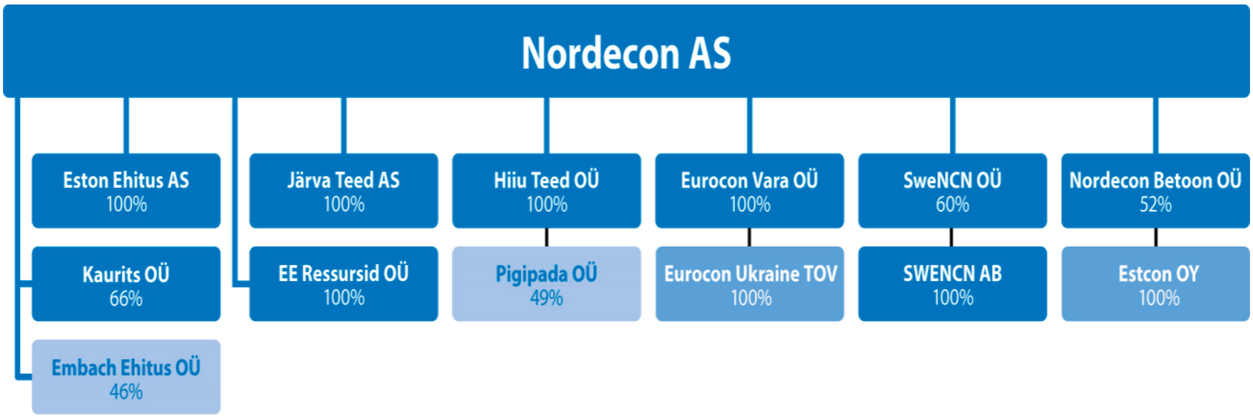
Major projects completed by Group entities in different sub-segments in 2016*:

Project	Group entity	Customer	Sub-segment
Renovation of the Tallinn-Rannamõisa-Kloogaranna section of national road no. 11390, km 26.6-36.8 and construction of a bicycle and pedestrian path	Nordecon AS	Estonian Road Administration	Road construction
Reconstruction of Majaka street, Tallinn	Nordecon AS	Tallinn City Municipal Engineering Services Department	Road construction
Marsi apartment buildings, Tallinn	Nordecon AS	OÜ Marsi Elu	Apartment buildings
Tivoli apartment buildings, Tallinn (Phases I and II)	Nordecon AS	Pikksilma Kodu OÜ	Apartment buildings
Warehouse and production building at Liiva 3, Tallinn	Nordecon AS	Riigiressursside Keskus OÜ	Industrial and warehouse facilities
Norwegian House, an office building at Veerenni 24, Tallinn	Nordecon AS	AS Kawe	Commercial buildings
Arsenal Keskus, a retail and leisure complex, Tallinn	Nordecon AS	Arsenal Center OÜ	Commercial buildings
Järveküla school, Rae parish	Nordecon AS	Rae Parish Government	Public buildings
Barracks, Tapa military base	Nordecon AS	Ministry of Defence	Public buildings
Vecta Design production building, Pärnu	AS Eston Ehitus	Vecta Design OÜ	Industrial and warehouse facilities
Main building of Nõmme stadium, Tallinn	AS Eston Ehitus	Hankasport OÜ	Commercial buildings
Värska Sanatorium	AS Eston Ehitus	Värska Vara OÜ	Commercial buildings
Uusmäe 2 apartment buildings, Saku	Nordecon Betoon OÜ	Saku Korterid OÜ	Apartment buildings
KEVILI South Terminal, Rõngu parish	Nordecon Betoon OÜ	KEVILI PMÜ	Industrial and warehouse facilities
Suur-Ameerika 1A underground car park, Tallinn	Nordecon Betoon OÜ	Fund Ehitus OÜ	Public buildings
Residential quarter L-KvartaL, Kiev	Eurocon Ukraine TOV	Diamant Center TOV	Apartment buildings

* Includes projects that have been delivered in the stage of substantial completion and can be used by the customer. There may be some incomplete work such as landscaping that can only be performed in spring.

Group structure

The Group's structure at 31 December 2016, including interests in subsidiaries, associates and joint ventures*



* The chart does not include the subsidiaries OÜ Eesti Ehitus, OÜ Aspi, OÜ Linnaehitus, Infra Ehitus OÜ, OÜ Paekalda 2, OÜ Paekalda 3, OÜ Paekalda 7, OÜ Paekalda 9, Kalda Kodu OÜ, Magasini 29 OÜ, Eurocon OÜ, Kastani Kinnisvara OÜ, Eurocon Bud TOV, Instar Ukraine TOV and Nordecon Statyba UAB and the associates Unigate OÜ, Technopolis-2 TOV and V.I. Center TOV which currently do not have any significant business activity. The first three were established to protect former business names. Nor does the structure include investments in entities in which the Group's interest is less than 20%.

Significant changes in Group structure

Disposal of a subsidiary

In May 2016, Nordecon Betoon OÜ (in which the Group's ownership interest is 52%) sold its wholly-held subsidiary OÜ Mapri Projekt, which was dormant.

Acquisition of an additional interest in a subsidiary

On 3 October 2016, Nordecon AS acquired an additional 4% stake in Eurocon OÜ, increasing its ownership interest to 100%.

Changes in Group structure after the reporting period

Liquidation of a subsidiary

The liquidation of Instar Ukraine TOV was completed on 6 February 2017. The company was dormant.

Merger of subsidiaries

At a meeting held on 14 October 2016, the Group's council decided to approve the merger of Nordecon AS's wholly-held subsidiaries Järva Teed AS and Hiiu Teed OÜ and Nordecon AS's road maintenance and machinery division. The merger and the new business name, AS Tariston, were entered in the Commercial Register on 6 January 2017 (see note 37 *Events after the reporting period*).

Financial review

Financial performance

Nordecon Group ended 2016 with a gross profit of 10,979 thousand euros (2015: 9,031 thousand euros) and a gross margin of 6.0% (2015: 6.2%). Due to increasing competition, gross margin decreased slightly year on year. The decline resulted from a sharp fall in the gross margin of the Infrastructure segment which could not be offset by margin improvement in the Buildings segment. In 2016, the Infrastructure segment delivered a gross margin of 3.6% and the Buildings segment a gross margin of 7.5%. The respective figures for 2015 were 8.6% and 6.7%. Although we anticipated a margin decrease in the Infrastructure segment already in the middle of the year, the result is far from satisfactory. Above all, the margin weakened because during the winter season demand for infrastructure services (major earthworks, etc.) is low and due to its business logic the segment has a large share of fixed costs. Another factor, which had an impact, was the wintry weather in November and December which caused a lot of work which should have been completed in 2016 to be postponed to 2017.

In response to fierce competition (and a bleak outlook) in the infrastructure market, we decided to restructure our operations: at the end of 2016 and the beginning of 2017 we merged Hiiu Teed OÜ, Järva Teed AS and Nordecon AS's road maintenance and machinery division to improve the Infrastructure segment's operating efficiency and the Group's overall competitiveness.

Administrative expenses for 2016 totalled 6,106 thousand euros. Compared with the year before, administrative expenses grew (2015: 5,026 thousand euros) but the ratio of administrative expenses to revenue was 3.3% (2015: 3.5%), remaining below the target ceiling of 4% of revenue. The rise in administrative expenses is mainly attributable to the Group's expansion to the Swedish market and the provisions made for performance bonuses.

Operating profit for the year was influenced by the write-down of other receivables by 409 thousand euros (see note 29) due to the entry into force of the final judgement on Nordecon's dispute with Teede REV-2 AS over the performance of the Koidula border crossing point contract in 2010. Our then venture partner ceased to fulfil its obligations and we had to complete the contract on our own. On the whole the outcome of the litigation which ended in June was positive for Nordecon but some of our claims were dismissed. We ended the year with an operating profit of 4,208 thousand euros (2015: 3,933 thousand euros), which is an improvement on 2015 but below the strategic target for the year. EBITDA for 2016 amounted to 6,017 thousand euros (2015: 5,769 thousand euros).

Although in 2016 exchange losses from adverse movements in the euro/Ukrainian hryvnia exchange rate were smaller than a year earlier, their impact on our net profit was still noticeable. During the period, the Ukrainian currency weakened by around 8%, which meant that Group entities whose functional currency is the hryvnia had to restate their euro-denominated liabilities. Exchange losses reported in finance costs totalled 195 thousand euros (2015: 574 thousand euros). The same movements in the exchange rate increased the translation reserve in equity by 191 thousand euros (2015: 587 thousand euros) and the net effect of the exchange differences on the Group's net assets was a loss of 4 thousand euros (2015: a gain of 13 thousand euros).

The Group's net profit amounted to 3,933 thousand euros (2015: 174 thousand euros), of which net profit attributable to owners of the parent, Nordecon AS, was 3,044 thousand euros (2015: 179 thousand euros).

Cash flows

In 2016, our operating activities generated a net cash inflow of 7,937 thousand euros (2015: an inflow of 2,684 thousand euros). The factors which have the strongest impact on our operating cash flow are a mismatch between the settlement terms agreed with customers and subcontractors and the fact that neither public nor private sector customers are required to make advance payments while we have to make prepayments to subcontractors, materials suppliers, etc. We strive to equalise the settlement terms agreed with customers and suppliers, mostly through factoring. In addition to factoring accounts receivable, we have signed a frame agreement for reverse factoring (factoring accounts payable), which enables our subcontractors that do not have sufficient credit standing to obtain a factoring limit from a financing institution to use our factoring limit.

Investing activities produced a net cash inflow of 107 thousand euros (2015: an outflow of 220 thousand euros). The largest items were payments for property, plant and equipment and intangible assets of 173 thousand euros (2015: 501 thousand euros) and proceeds from sale of property, plant and equipment of 160 thousand euros (2015: 337 thousand euros). Dividends received amounted to 153 thousand euros (2015: 108 thousand euros).

Financing activities generated a net cash outflow of 4,579 thousand euros (2015: an outflow of 4,934 thousand euros). Our financing cash flow is strongly influenced by loan and lease transactions. Proceeds from loans received amounted to 2,847 thousand euros, consisting of use of overdraft facilities and development loans (2015: 2,099 thousand euros). Loan repayments totalled 2,262 thousand euros, consisting of scheduled repayments of long-term investment and development loans (2015: 3,449 thousand euros). Investments in road construction equipment and a new asphalt concrete plant increased finance lease payments which totalled 2,478 thousand euros (2015: 1,726 thousand euros). Dividends paid amounted to 1,068 thousand euros (2015: 1,091 thousand euros) and in connection with the reduction of Nordecon AS's share capital shareholders were made a distribution of 923 thousand euros (2015: nil euros).

At 31 December 2016, the Group's cash and cash equivalents totalled 9,786 thousand euros (31 December 2015: 6,332 thousand euros). Management's commentary on liquidity risks is presented in the chapter *Description of the main risks*.

Investments and capital expenditures

Equity investments

In 2016, we did not make any significant investments in non-Group entities. Smaller investments are described in the *Directors' report*, in the chapter *Group structure*, and in notes 6 and 7 to the financial statements.

Investment properties

During the period, we did not purchase or sell any investment properties (properties held for resale, rental income or capital appreciation). There were no such transactions in the comparative period either (see note 13).

Property, plant and equipment and intangible assets

In 2016, capital expenditures on property, plant and equipment totalled 3,507 thousand euros (2015: 2,258 thousand euros) (see note 14). The purchases fell into three categories: replacement of obsolete machinery and equipment, improvement of operating efficiency, and ensuring compliance with road maintenance requirements.

There were no major outlays on intangible assets (see note 15).

Changes in the carrying amounts of relevant asset classes

Asset class (EUR '000)	2016	2015
Investments in equity-accounted investees (note 12)	461	485
Property, plant and equipment (note 14)	1,488	304
Intangible assets (note 15)	14	-24

In 2017, capital expenditures will decrease somewhat compared with 2016. The focus will be on replacing obsolete machinery and equipment and improving operating efficiency.

Key financial figures and ratios

Figure/ratio	2016	2015	2014	2013	2012
Revenue (EUR '000)	183,329	145,515	161,289	173,651	159,422
Revenue change	26.0%	-9.8%	-7.1%	8.9%	7.9%
Net profit (EUR '000)	3,933	174	2,298	4,639	1,926
Profit attributable to owners of the parent (EUR '000)	3,044	179	1,956	4,642	1,477
Weighted average number of shares	30,756,728	30,756,728	30,756,728	30,756,728	30,756,728
Earnings per share (EUR)	0.10	0.01	0.06	0.15	0.05
Administrative expenses to revenue	3.3%	3.5%	3.5%	2.8%	3.4%
EBITDA (EUR '000)*	6,017	5,769	5,585	7,639	4,833
EBITDA margin	3.3%	4.0%	3.5%	4.4%	3.0%
Gross margin	6.0%	6.2%	6.1%	6.5%	5.2%
Operating margin	2.3%	2.7%	2.5%	3.1%	1.7%
Operating margin excluding gain on asset sales	2.2%	2.4%	2.3%	2.9%	1.4%
Net margin	2.1%	0.1%	1.4%	2.7%	1.2%
Return on invested capital	8.5%	2.1%	5.8%	9.5%	5.2%
Return on equity	10.6%	0.5%	6.4%	14.2%	6.6%
Equity ratio	38.6%	40.1%	37.3%	33.4%	27.1%
Return on assets	4.2%	0.2%	2.3%	4.3%	1.8%
Gearing	16.7%	25.5%	24.8%	23.5%	33.7%
Current ratio (note 5)	1.20	1.03	1.02	1.02	1.08

As at 31 December	2016	2015	2014	2013	2012
Order book (EUR '000)	131,335	125,698	83,544	64,286	127,259

* EBITDA includes the effects of goodwill. 2016: gain from a bargain purchase of 139 thousand euros, 2014: an impairment loss on goodwill of 192 thousand euros and gain from a bargain purchase of 414 thousand euros; 2013: an impairment loss on goodwill of 348 thousand euros.

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 + impairment losses on goodwill EBITDA margin = (EBITDA/revenue)*100 Gross margin = (gross profit/revenue)*100 Operating margin = (operating profit/revenue)*100 Operating margin excluding gain on asset sales = ((operating profit – gain on sales of non-current assets – gain on sales of real estate)/revenue) *100	Net margin = (net profit for the period/revenue)*100 Return on invested capital = ((profit before tax + interest expense)/ the period's average (interest-bearing liabilities + equity))*100 Return on equity = (net profit for the period/the period's average total equity)*100 Equity ratio = (total equity/total liabilities and equity)*100 Return on assets = (net profit for the period/the period's average total assets)*100 Gearing = ((interest-bearing liabilities – cash and cash equivalents)/ (interest-bearing liabilities + equity))*100 Current ratio = total current assets/total current liabilities

Order book

At 31 December 2016, the Group's order book (backlog of contracts signed but not yet performed) stood at 131,335 thousand euros, a 4% increase year on year. Altogether, in 2016 the Group secured new contracts of 158,152 thousand euros.

As at 31 December	2016	2015	2014	2013	2012
Order book (EUR '000)	131,335	125,698	83,544	64,286	127,355*

* Includes the uncompleted portion of the order book of the Tivoli housing development project of 12,814 thousand euros. The contract was terminated early in 2013.

At the reporting date, contracts secured by the Buildings segment and the Infrastructure segment accounted for 76% and 24% of the Group's order book respectively (31 December 2015: 72% and 28% respectively).

Compared with 2015, the order book of the Buildings segment has grown by around 9%. The order book of the commercial buildings sub-segment has increased and the order book of the industrial and warehouse facilities sub-segment has decreased. The order books of the apartment buildings and the public buildings sub-segments have remained stable. The order book is the largest in the apartment buildings sub-segment where work secured but not yet performed includes not only Estonian projects but also projects secured in Ukraine and Sweden. We continue to build five apartment buildings in the city of Brovary in the Kiev region in Ukraine and two apartment buildings in Sweden. In Tallinn we continue to build the apartment buildings at Pirita tee 20a (phases I and II) and Virbi 10 and in the fourth quarter we secured a contract for the construction of phase I of an apartment complex at Sõjakooli 12. After some decline, the order book of the commercial buildings sub-segment has started to grow. In 2016, we signed large-scale contracts for the construction of Viimsi Äritare, the renovation of the machinery hall building of the historical Luther furniture factory at Vana-Lõuna 39, and the construction of a commercial building in the Rotermann quarter in Tallinn. In the fourth quarter, we signed contracts for the construction of the Martens building in the centre of Pärnu and an office building at Lõõtsa 12 in Ülemiste City, Tallinn. A large share of the order book of the public buildings sub-segment is made up of the construction of a depot, armoured vehicle infrastructure, a canteen and barracks at the Tapa military base and the reconstruction of Ugala Theatre in Viljandi. The largest project in the order book of the industrial and warehouse facilities sub-segment is the construction of production and warehouse facilities for Harmet.

Compared with 2015, the order book of the Infrastructure segment has decreased by 8%. 90% of the segment's order book is made up of work awarded to the road construction and maintenance sub-segment whose order book has remained more or less stable compared with the year earlier. A significant project in the road construction portfolio is the contract signed for building a 2+1 road (a road with passing lanes) on the Ääsmäe-Kohatu section of the Tallinn-Pärnu-Ikla road which was secured in the fourth quarter. We continue to provide road maintenance services in four road maintenance areas: Keila, Järva, Hiiu, and Kose. According to our estimates, in 2017 the volume of public investment will not increase substantially compared with 2016. Thus, we expect that in 2017 the revenue of the Infrastructure segment will remain more or less at the same level as in 2016 (for further information, see the *Business risks* section of the chapter *Description of the main risks*).

Based on the Group's order book and developments in the Group's selected markets, we are moderately optimistic about business volumes in 2017. In an environment of stiff competition, we pursue the policy of avoiding unjustified risks whose realisation in the contract performance phase would have an adverse impact on the Group's results. Instead, we prefer to keep costs under control and focus on projects with positive prospects.

People and personnel expenses

In 2016, the Group (the parent and the subsidiaries) employed, on average, 684 people including 381 engineers and technical personnel (ETP). The number of ETP increased in connection with growth in the Estonian operations of the Buildings segment and the Group's expansion to Sweden. The number of workers decreased due to shrinkage in the portfolio of self-performed work. The overall level of staff remained stable compared with 2015.

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

Year	Engineers and technical personnel	Workers	Total average
2016	381	303	**684**
2015	356	334	**690**
2014	357	375	**732**
2013	357	400	**757**
2012	367	397	**764**

Our personnel expenses for 2016 including all taxes totalled 20,401 thousand euros (2015: 18,248 thousand euros), a roughly 12% increase year on year. The growth in personnel expenses is attributable to the Group's expansion to Sweden, selective pay-rises, and payment of performance bonuses.

The service fees of the members of the council of Nordecon AS for 2016 amounted to 138 thousand euros and associated social security charges totalled 45 thousand euros (2015: 139 thousand euros and 46 thousand euros respectively). The provision for the council members' performance bonuses, made based on the Group's performance indicators, amounted to 47 thousand euros and associated social security charges totalled 16 thousand euros (2015: 37 thousand euros and 12 thousand euros respectively).

The service fees of the members of the board of Nordecon AS amounted to 350 thousand euros and associated social security charges totalled 116 thousand euros (2015: 322 thousand euros and 106 thousand euros respectively). The provision for the board members' performance bonuses, made based on the Group's performance indicators, amounted to 243 thousand euros and associated social security charges totalled 80 thousand euros (2015: 188 thousand euros and 62 thousand euros respectively).

Labour productivity and labour cost efficiency

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:

	2016	2015	2014	2013	2012
Nominal labour productivity, (EUR '000)	268.0	210.9	220.4	229.4	208.7
Change against the comparative period	27%	-4.3%	-4.0%	9.9%	3.2%
Nominal labour cost efficiency, (EUR)	9.0	8.0	8.0	8.4	9.5
Change against the comparative period	12.8%	-0.6%	-4.8%	-11.6%	-8.6%

Nominal labour productivity = revenue / average number of employees for the year
Nominal labour cost efficiency = revenue / personnel expenses for the year

Nominal labour productivity and labour cost efficiency increased year on year, mainly through revenue growth.

Sustainability report

Nordecon Group is aware that its activities affect the economy, society and the environment in which it operates. On the other hand, external stakeholders and social trends influence the Group's activities. Responsible management of people, the environment, social relations and ethical market behaviour is an integral element of contemporary management culture and the bedrock of Nordecon's long-term success and development.

People

We believe that Nordecon's most important assets are its people and that the value of the company depends on the professionalism, motivation and loyalty of our employees. Accordingly, we are committed to creating a modern work environment that fosters professional growth and development not only in terms of working conditions but also in terms of personal growth, career advancement and nature of the work.

We have a good balance between experienced employees and young staff who are starting their career. The average age of our entities' management personnel is 44. In connection with the addition of a large number of young specialists, the average age of engineers and technical staff has decreased to 36. On average, our people have been with us for slightly less than 9 years and men and women account for 84% and 16% of the staff respectively. In recent years, the share of women has increased by 3 percentage points. Information on the number of staff and personnel expenses can be found in the chapter *People and personnel expenses*.

Safe and healthy working environment

Due to the nature of our business, the risks related to health and safety at work are an important focus area with which we deal consistently. It is important for us to make sure that proper safety standards are observed not only by our own employees but also by our business partners. In this area, the key goals include:

- avoiding accidents at work and reducing contraction of occupational diseases;
- ensuring safety and security at work;
- providing an ergonomic, clean and modern working environment and appropriate work equipment;
- supporting employees' healthy lifestyles.

The Group has established guidelines and rules for the general working environment as well as the working environment of its construction sites. We have appointed working environment representatives and working environment councils which include an equal number of employer's and employees' elected representatives. We arrange regular health assessments for our staff. We also make sure that our employees are supplied with appropriate work equipment, working clothes and personal protective equipment and that their use is checked. We carry out regular risk assessments to identify risk factors in our working environment which are subsequently analysed and monitored. To mitigate and control risks, we prepare action plans whose implementation is monitored by the working environment specialist. At the construction sites, compliance with safety and security requirements is arranged and checked by the work safety coordinator. At all our sites (construction sites and offices), we have employees who have received first aid training.

In 2016, our employees were involved in three less serious accidents and one serious accident at work, there were no fatal accidents. Subcontractors operating on our sites had three less serious and three serious accidents at work and there was also one fatal accident.

Employee satisfaction and engagement

Since 2010 we have conducted regular employee satisfaction and commitment surveys which measure the TRI*M Index, which is a summary employee engagement index. Every year, the survey has been conducted by the same company, KANTAR EMOR, to ensure the comparability of processing and outcomes. Our long-term strategic goal is to consistently increase our employees' satisfaction and engagement. In numerical terms, our objective is to improve the TRI*M Index by 3 percentage points per year on average.

In 2016, our target was to raise the engagement index to 57. The actual figure exceeded our expectations: the index rose to 66. The participation rate was a very positive 77%, which is sufficiently representative for drawing conclusions. Based on the feedback and information obtained from the surveys, we design measures for the next periods in order to improve organisation of our daily work and better target our human resource activities which are aimed at improving employee engagement.

Employee training and education

In 2016, the focus of our training activities remained on further professional training, which is particularly relevant due to changes in professional standards. We have over 70 engineers and technical personnel who have obtained a professional qualification. Several employees have qualifications in more than one field. We will continue to offer extensive further training opportunities also in 2017 and 2018 and will support our employees' attendance at professional lecture cycles organised by universities. Last year we set up a programme in partnership with Tallinn University of Technology to improve our people's knowledge of heating, ventilation, water and wastewater systems. Altogether, 30 employees participate in it. We encourage project managers and teams to implement new and innovative technical solutions, which allow managing complex and demanding projects. Nordecon prioritises teamwork and intra-Group knowledge sharing. In 2016, we organised several large-scale teamwork training events and provided managers with multi-step training in management through appreciation.

We hire new specialists mostly from Tallinn University of Technology and TTK University of Applied Sciences. In 2016, more than 50 of our engineers and technical personnel were studying at higher education institutions, half of them working for a master's degree. 77% of our engineers and technical personnel have or are obtaining higher education. We believe that it is important to offer students internship opportunities so that they could apply their theoretical knowledge in practice. In spring 2016, we participated in the career fair organised by BEST Estonia which helped us attract a large number of interns for the summer as well as new talent for our construction and construction preparation entities. In 2016, our companies provided internship opportunities for over 20 students from different educational institutions. Most of the interns were from Tallinn University of Technology and TTK University of Applied Sciences but we also had interns from Järva County Vocational Training Centre, the Estonian University of Life Sciences, and Tallinn Construction School.

Other activities related to employees

Nordecon's employees are keen on sports – our people take part in running events such as the SEB Maijooks and SEB Tallinn Marathon and our team participates in the Tartu Marathon Cube which is a series of races. In spring 2016, our team won the construction companies' traditional annual volleyball competition. Several times a year smaller groups of employees organise kayaking or canoeing trips as well as orienteering games and other events in picturesque places across Estonia which are supported by the Group. In autumn, there is a traditional bicycle trek to Kõrvemaa. We also visit Tallinn City Theatre and go the A Le Coq football stadium to see the matches of the Estonian national team.

Our staff appreciate joint tours to construction sites. In 2016, we organised several tours to our sites in and around Tallinn. In addition, in spring our people could visit Nordecon's first construction site in Sweden.

In February we have our traditional winter seminar where we review our past performance, accomplishments, and challenges and discuss future plans. Every year the event brings together over 200 employees from across the Group.

Human rights

Nordecon Group respects human rights and diversity. We have created working conditions which are also suitable for people with special needs and teleworking opportunities. We make sure that all our employees receive equal pay for equal work and equal opportunities regardless of gender, ethnicity, language, culture or age. For years, we have been offering our employees, depending on the nature of their work, flexible work arrangements: we prioritise good results over the time or place of work. Nordecon operates in different countries. Therefore, our employees are used to working with colleagues with a different cultural background and outlook. Our organisation appreciates diversity of opinions and respects everyone's right to have their own point of view.

In 2016, there were no official complaints about unequal treatment of the Group's employees.

Quality service and customer experience

In the field of service quality, our overriding principle is to deliver on time, and within the budget agreed with the customer, quality buildings and infrastructure assets. We strive to achieve this by complying with project documentation and construction and other laws and regulations and applying an integrated management system. In doing that, we prioritise customer satisfaction, transparent and ethical behaviour, employee professionalism and integrity, consistent improvement of the management system, and innovation.

We have set ourselves a clear goal that that all contractual commitments have to be met on time. To assure this, we plan the work so that substantial completion would be achieved more quickly and we would have sufficient time to eliminate possible deficiencies, carry out measuring and surveying, prepare documents in accordance with applicable requirements, and deliver the asset (in the state of final completion) on time.

At the end of each project we ask the customer to evaluate our work. Our target is that the customers' overall satisfaction index (the average of the ratings given to different aspects of our work) would be at least 'very good' (on the scale of 'poor', 'acceptable', 'good', 'very good', and 'exceptional'). In the past three years we have been able to achieve this. In addition to specific questions, the questionnaire includes a box where customers can provide feedback on deficiencies noted and make suggestions for improvement. Over the years, this option has been widely used by customers' representatives who have added both critical and positive comments, which have proven a valuable input for our improvement activities.

We pay a lot of attention to increasing our project managers' and teams' innovativeness and implementation of new engineering solutions so that we could improve our work efficiency and offer better construction solutions to our customers. This enables us to manage increasingly more complex and demanding projects more effectively and to offer our people interesting, developing and diverse assignments.

In our everyday work we increasingly rely on the opportunities provided by Building Information Modelling (BIM). BIM makes the design and the construction processes more transparent, helps prevent problems, and ensures a higher-quality outcome for the user. In addition, the data saved in the model provides the customer using the building or infrastructure asset with an opportunity to quickly find information about equipment or materials maintenance, products, and suppliers. In 2016, we used the opportunities offered by BIM in 15 projects.

Environment

One of our guiding principles is to minimise the environmental impacts of the construction activities that we manage. We consistently monitor and assess our environmental impacts. Potential impacts are minimised both preventively and during the construction process. We continuously increase the environmental awareness of our employees and business partners and perform contracts using appropriate sustainable and clean technologies, mechanisms and materials.

The Group consistently invests in new environment-friendly machinery and equipment and expects a similar mentality and attitude from its subcontractors. We identify and review the significant environmental aspects and impacts of our activities on a regular basis. For each construction site, we prepare an environmental plan, which describes the measures for reducing or controlling significant impacts, in particular the measures for preventing pollution and contamination and reducing negative impacts on wildlife (plants and animals). We strive to optimise resource (electricity and water) utilisation and organisation of transport.

We have policies for reusing and recovering materials, reducing the use of materials which can harm nature, and handling hazardous substances with due care. We strive to reduce, sort and recover waste and to design and create buildings whose environmental impacts during their time of use are smaller (from the point of view of energy efficiency, water and fuel consumption, emissions, waste sorting options, accessibility, etc.).

The trend is towards sustainable construction which is aimed, among other things, at reducing operating costs. A performance indicator is the energy efficiency of buildings designed and built. Certification programmes such as LEED show how sustainable and green a building is. Development of the area depends, above all, on the decisions made by customers but we keep ourselves up to date and develop our skills to match market trends. An office building built by Nordecon at Lõõtsa 5, Tallinn, has a LEED Gold rating. In 2016, we began building another office building at Lõõtsa 12 which is going to aspire for the same certification.

In 2010–2016 Nordecon AS, Eesti Energia AS and the Estonian Road Administration participated in a pilot project (OSAMAT) carried out in Estonia in the framework of the European Union's LIFE+ programme. The purpose of the project was to increase the recycling of oil shale ash (a by-product of oil shale-based electricity production) and research its use in road construction in order to save other natural resources such as crushed stone, sand, and gravel and reduce the emission of greenhouse gas (CO_2).

The Group owns three asphalt concrete plants whose emission quantities are measured as required by law. According to measuring results, our plants have not exceeded the permitted levels.

We have a procedure in place which ensures that environmental reports are submitted and environmental data is declared on a regular basis. Our clear goal is a cleaner environment. The first measurable step in achieving this is to prevent situations which would require authorities to issue an environmental order or instruction. In 2016, we did not receive any environmental orders or instructions.

Membership and leadership

Nordecon believes that the best way to influence the development of the construction sector as a whole is to consistently increase the knowledge and awareness of the public. We contribute to sustainable development of the construction industry through active participation in the work of professional and business organisations which voice opinions and make proposals during the drafting and amendment of laws and regulations. Participation in professional and business organisations and working groups is crucial because this is where the industry exchanges information and works together. The knowledge and experience thus gained is shared within the Group and applied in our daily management activities.

In 2016, our representatives contributed, through professional bodies, to the drafting of a new Public Procurement Act and amendments to the Building Act.

Group companies belong to the following organisations:

- Estonian Chamber of Commerce and Industry
- Estonian Association of Civil Engineers
- Estonian Association of Construction Entrepreneurs
- Estonian Asphalt Pavement Association
- Estonian Water Works Association
- Estonian Human Resource Management Association

Several of the Group's employees belong to professional associations for individuals such as:

- Estonian Association of Civil Engineers
- Association of Estonian Surveyors
- Estonian Mining Society
- Estonian Society of Heating and Ventilation Engineers

Nordecon's employees participate in the following committees and working groups (projects):

- Estonian Qualifications Authority (promoting the engineering profession and further engineering studies, development of relevant standards)
- Qualifications Committee of the Estonian Association of Civil Engineers
- Qualifications Committee of the Estonian Association of Construction Entrepreneurs
- Qualifications Committee of Vocational Schools Offering Engineering Education
- Construction Industry Expert Group for OSKA (system for monitoring and anticipating labour market needs)

Besides the above, we consider it important to directly support the studies and development of children and young people to help them make choices about their future and encourage them to find a way to engineering professions and thus ensure the future of the industry. Accordingly, in the period 2006-2016 Nordecon acquired new testing equipment for the Strength of Materials Laboratory of the Civil Engineering Faculty of Tallinn University of Technology. For years, we have financed scholarship programmes for outstanding undergraduate and graduate students of the same university. In 2016, we signed an agreement with Järveküla school in order to work together to promote sciences, technology, engineering, and mathematics among middle school pupils.

Giving back to society

Nordecon's charitable activities are focused on supporting education, culture and other areas that promote community engagement. Thereby we prefer activities aimed at supporting the development of children and young people. Every year, we support numerous charitable organisations and projects as well as social and community undertakings and initiatives. In 2016, the Group's donations and support payments totalled 199 thousand euros (2015: 221 thousand euros).

We made substantial donations to education. For example, to the Development Foundation of Tallinn University of Technology. Every year we finance Nordecon's Heinrich Laul scholarship, which is awarded to a young (up to a 40-year-old) professor or scientist working at Tallinn University of Technology who has a doctor's degree in engineering. In addition, every autumn we award a scholarship to an outstanding graduate student working towards a master's degree in engineering. For years, we have been among the main sponsors of the Nõmme Private Education Foundation. In autumn 2016, we set up a partnership with Järveküla school.

Our companies are generous sponsors of sports. For example, in the reporting period we supported sports club Duo (Estonian masters' league volleyball team Bigbank Tartu and work with children) and Tallinn University of Technology Sports Club. We continued our cooperation with Karl-Martin Rammo, a young sailing athlete. The purpose is to help the gifted young athlete achieve the best possible results and thereby inspire other young people to go in for sports and set ambitious goals.

Nordecon has long-term partnership agreements with Tallinn City Theatre, Tallinn University of Technology and various other educational, cultural and social institutions and establishments.

For years, we have contributed to the development of the Estonian Defence Forces. Through a support agreement with the National Defence Promotion Foundation, Nordecon supports recognition of the best officer and the best non-commissioned officer serving in the Estonian Defence Forces.

Avoiding corruption

The Group defines corruption as the abuse or misuse of power or information entrusted to a person in connection with their office with the intention to acquire a personal benefit, accompanied by direct damage to the Group's reputation and business activity.

Our main objective is to avoid corruption and prevent our people's involvement in questionable incidents by increasing their awareness. We also pay attention to checking different activities, preventing conflicts of interest and ensuring transparency in our everyday operations. We have adopted rules and guidelines which regulate, among other things, arrangement of tenders/procurements during the performance of construction projects, use of corporate assets, handling inside information, investment management, risk management, administration, and document management.

The transparency and compliance of the Group's activities is regularly checked by an independent internal audit service provider. Our employees can use a whistle-blowing hotline to report both suspicions of corruption and instances of unfair treatment. The hotline is managed and the reports are forwarded to the audit committee appointed by the council of Nordecon AS by the above independent party who ensures that the identity of the whistle-blower is kept confidential.

In 2016, the Group's management was not notified of any instances of corruption within the Group and no reports were received via the hotline.

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 Industrials GI; OMX Baltic Industrials PI; OMX Baltic Construction & Materials GI; OMX Baltic Construction & Materials PI; OMX_Baltic_GI; OMX_Baltic_PI; OMX Tallinn_GI

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

In July 2014, Nordecon AS issued 1,618,755 new shares with a total cost of 1,581,523.64 euros, increasing share capital by 1,034,573.01 euros to 20,691,704.91 euros, and acquired the same number of own (treasury) shares for the same price. The share capital of Nordecon AS consists of 32,375,483 ordinary registered shares with no par value.

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

Reduction of share capital

On 25 May 2016 the annual general meeting of Nordecon AS adopted a resolution on the reduction of the company's share capital and on 16 September 2016 the reduction was registered at the Commercial Register.

Based on the decision of the annual general meeting, the company's share capital was reduced by 971,264.49 euros, from 20,691,704.91 euros to 19,720,440.42 euros. Share capital was reduced by reducing the book value of the shares by 0.03 euros per share. The number of the company's shares remained the same and the book value of the shares decreased in proportion to the reduction of share capital. After reduction, the company's share capital amounts to 19,720,440.42 euros, consisting of 32,375,483 shares with no par value.

The reduction of share capital of 922,701.84 euros (0.03 euros per share) was paid out to shareholders on 19 December 2016. No payments were made to Nordecon AS for own shares held by the company.

Summarised trading results

Share trading history

Price (EUR)	2016	2015	2014	2013	2012
Open	1.03	1.02	1.05	1.17	0.92
High	1.35	1.14	1.09	1.29	1.26
Average	1.14	1.05	1.02	1.13	1.02
Low	0.98	0.98	0.93	0.99	0.88
Last closing price	1.33	1.05	1.06	1.05	1.16
Traded volume (number of securities traded)	1,162,430	1,656,376	1,799,724	2,443,809	3,425,060
Turnover, in EUR millions	1.3	1.71	1.85	2.81	3.77
Listed volume (31 December), in thousands	32,375	32,375	32,375	30,757	30,757
Market capitalisation (31 December), in EUR millions	43.06	33.99	34.32	32.29	35.68

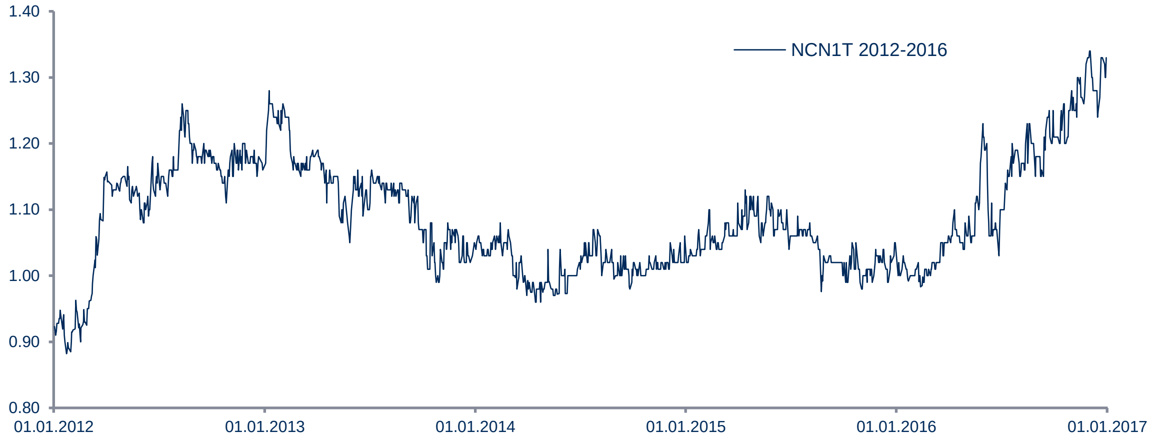
Price earnings ratio (P/E) and price to book ratio (P/B)

Ratio	2016	2015	2014	2013	2012
P/E	13.3	180.4	16.7	7.0	23.2
P/B	1.1	0.9	0.9	1.0	1.3

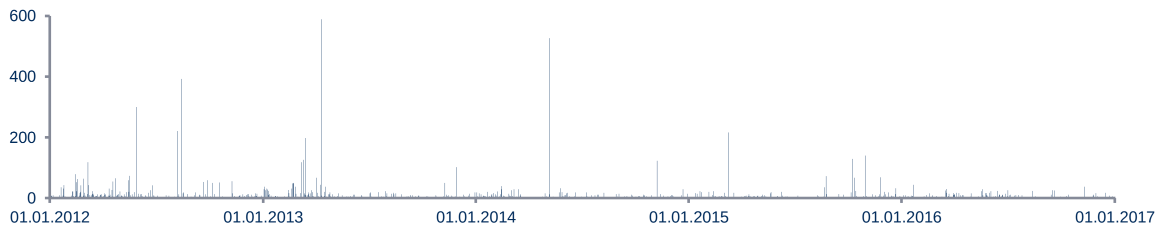
P/E = the period's last closing price of the share / earnings per share (EPS)
P/B = the period's last closing price of the share / (equity attributable to owners of the parent / number of shares outstanding)

Movements in the price and turnover of the Nordecon AS share in 2012-2016

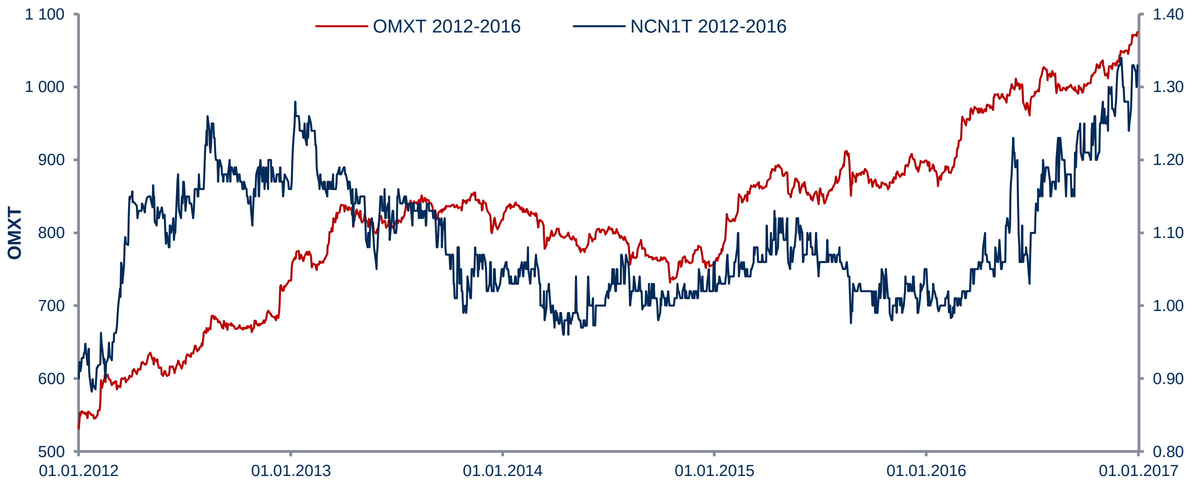
Movements in share price in euros



Daily turnover in thousands of euros



Movement of the share price compared with the OMX Tallinn index in 2012-2016



Index/equity	1 January 2012*	31 December 2016	+/-%
OMX Tallinn	531.17	1,075.50	102.48%
NCN1T	EUR 0.90	EUR 1.33	47.78%

* Closing price on the NASDAQ OMX Tallinn Stock Exchange at 31 December 2011.

Shareholder structure

Largest shareholders in Nordecon AS at 31 December 2016

Shareholder	Number of shares	Ownership interest (%)
AS Nordic Contractors	16,507,464	50.99
Luksusjaht AS	4,225,282	13.05
ING Luxembourg S.A.	2,007,949	6.20
SEB Pank AS clients	1,036,040	3.20
Rondam AS	1,000,000	3.09
ASM Investments OÜ	519,600	1.60
State Street Bank and Trust Omnibus Account A Fund	447,365	1.38
Ain Tromp	378,960	1.17
SEB Elu- ja Pensionikindlustus AS	255,000	0.79
Genadi Bulatov	250,600	0.77

Shareholder structure of Nordecon AS at 31 December 2016

	Number of shareholders	Ownership interest (%)
Shareholders with interest exceeding 5%	3	70.24
Shareholders with interest from 1% to 5%	5	10.45
Shareholders with interest below 1%	1,501	14.31
Holder of own (treasury) shares	1	5.00
Total	**1,510**	**100**

Shareholder structure by shareholder category at 31 December 2016

Shareholders by business line and legal form	Number of shares	Ownership interest (%)
Companies	25,073,200	77.45
Financial institutions (banks, investment funds)	4,184,907	12.93
Individuals	2,820,925	8.70
Insurance companies	296,451	0.92
Total	**32,375,483**	**100**

Shareholder structure by country of shareholder's domicile at 31 December 2016

Shareholder's domicile	Number of shares	Ownership interest (%)
Estonia	29,166,969	90.09
Luxembourg	2,011,999	6.21
USA	499,660	1.54
Sweden	391,665	1.21
Finland	120,282	0.37
Lithuania	102,868	0.32
Great Britain	44,212	0.14
Latvia	13,436	0.04
Germany	12,405	0.04
Other countries	11,987	0.04
Total	**32,375,483**	**100**

Shares controlled by members of the council of Nordecon AS at 31 December 2016

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

* Companies controlled by the individual

Shares controlled by members of the board of Nordecon AS at 31 December 2016

Board member		Number of shares	Ownership interest (%)
Jaano Vink (OÜ Brandhouse)*	Chairman of the Board	37,921	0.12
Avo Ambur	Member of the Board	32,322	0.10
Erkki Suurorg	Member of the Board	0	0.00
Total		**70,243**	**0.22**

* Companies controlled by the individual

Share option plan

The annual general meeting that convened on 27 May 2014 approved a share option plan aimed at motivating the executive management of Nordecon AS by including them among the company's shareholders to ensure consistency in the company's management and improvement of the company's performance, and enable the executive management to benefit from their contribution to growth in the value of the company's share. Under the share option plan, the company has granted options for acquiring up to 1,618,755 shares in Nordecon AS. 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 general meeting has approved the company's annual report for 2016. In the case of members of the company's board, exercise of the options is linked to achievement of the Group's EBITDA target for 2016 (from 4,491 thousand euros to 11,228 thousand euros).

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

Restrictions related to shares

The shares in Nordecon AS are freely transferable and the company's articles of association do not impose any restrictions on the transfer of the shares or the requirement to obtain the consent of the company or other shareholders for such transactions. The shares may be pledged. The board of Nordecon AS is not aware of any shareholder agreements that might restrict transfer of the shares.

Dividend policy

Dividends distributed by Nordecon AS in previous years

Year of pay-out	Total dividends paid EUR '000	Number of shares, in thousands	Dividend per share EUR	Dividend pay-out ratio *
2008	5,897	30,757	0.19	34.5%
2009	1,966	30,757	0.06	21.1%
2010	0	30,757	0	0%
2011	0	30,757	0	0%
2012	0	30,757	0	0%
2013	0	30,757	0	0%
2014	923	30,757	0.03	19.9%
2015	923	30,757	0.03	47.2%
2016	923	30,757	0.03	515.6%

* Formula: dividends paid/profit for the period attributable to owners of the parent from which the dividends were distributed.

In 2016, Nordecon AS reduced share capital by 971 thousand euros (0.03 euros per share). The reduction of share capital was paid out to shareholders in December 2016 (see also the chapter *Share and shareholders*).

The board proposes that in 2017 the company should distribute for 2016 a dividend of 0.045 euros per share (1,384 thousand euros in aggregate). Own (treasury) shares do not grant the company any shareholder rights.

The board's dividend payment proposal is made by reference to the following key factors:

- the Group's performance indicators for the year and the cash flow required for the Group's operation;
- the optimal ratio and volume of debt and equity capital required for the Group's profitable growth and sustainable development;
- the dividend expectations of the controlling shareholder AS Nordic Contractors;
- the general rate of return on the Estonian securities market.

Reduction of share capital

During the preparation of the annual report, the Group's ultimate controlling party notified the Group's board of its intention to propose at the annual general meeting a motion for reducing the share capital of Nordecon AS by 1,457 thousand euros (0.045 euros per share). If the motion is approved, share capital will decrease from 19,720 thousand euros to 18,263 thousand euros. According to the motion, share capital would be reduced by reducing the book value of the shares so that the number of the shares would remain the same, i.e., 32,375,483 shares including 1,618,755 own shares.

In accordance with the company's articles of association, the minimum and maximum authorised share capital of Nordecon AS amount to 8,000 thousand euros and 32,000 thousand euros respectively. The new, reduced amount of share capital would comply with the articles of association.

Under the Estonian Income Tax Act, on the reduction of share capital there is no obligation to pay income tax on this portion of disbursements made from equity which does not exceed the contributions made in equity. The contributions made in the equity of Nordecon AS exceed the possible reduction of share capital.

Members of the council and board of Nordecon AS

Council

The council has five members that have been elected by the general meeting for a term of five years.

Toomas Luman (chairman of the council) – representative of AS Nordic Contractors and the controlling shareholder

An engineer with a diploma in industrial and civil engineering from Tallinn Polytechnic Institute (today: Tallinn University of Technology), Toomas Luman is one of the founders of the Nordecon Group and has been involved in the Group's activities through its board and council for 28 years. Besides construction companies, he has held senior positions at various other enterprises (Tallinna Kaubamaja Grupp AS, AS E-Betoonelement, OÜ Väokivi, Eesti Energia AS, etc.). He is an active member of the community and has contributed to the development of the business environment, education and national defence. For over 21 years he has led the Estonian Chamber of Commerce and Industry and for many years has participated in the work of the professional association of Estonian construction enterprises. As chairman of the Chamber of Commerce, he was actively involved in preparatory activities for Estonia's accession to the EU and the euro area. Before Estonia joined the EU, Toomas Luman acted for four years as chairman of the consultative committee of the head of the Estonian state delegation in EU accession negotiations (the minister of foreign affairs). For ten years, Toomas Luman was chairman of the Board of Governors of Tallinn University of Technology. He is a major of the Estonian Defence Forces (in reserve) and chairman of the Board of Elders of the Estonian Reserve Officers' Association. He has been awarded the Order of the White Star of the Republic of Estonia (Fifth Class, Third Class and First Class) and he has received various awards from the Estonian Defence Forces, the Estonian National Defence League and other state and non-profit organisations. He has also received state awards from several foreign countries. He has an honorary doctorate degree from Tallinn University of Technology.

Membership in the governing bodies of other organisations: OÜ Luman ja Pojad and its subsidiaries and associates (including AS Nordic Contractors, chairman of the board), Estonian Chamber of Commerce and Industry (chairman of the board), Nõmme Private Education Foundation, Foundation for Promoting National Defence, Development Foundation of Tallinn University of Technology, Estonian Shooting Sport Federation (vice-president), Alumni Association of Tallinn University of Technology, Board of Elders of Estonian Reserve Officers' Association (chairman)

Interests (exceeding 5%) in other companies: OÜ Luman ja Pojad and its subsidiaries and associates (including AS Nordic Contractors, Arealis AS and Nordecon AS), TL Holdinginvesteeringud OÜ

Andri Hõbemägi – representative of AS Nordic Contractors

Andri Hõbemägi is an economics graduate of Tallinn University of Technology. From 1993 to 2001 he worked for AS Hansapank (later renamed AS Swedbank). From 2001 to 2002 he was executive manager of football club FC Flora. In 2002 he became CFO of AS Eesti Ehitus (later renamed Nordecon AS). During his term of office the company's shares were listed on the Tallinn Stock Exchange. Currently he is chief analyst with AS Nordic Contractors, the controlling shareholder in Nordecon AS. His community activities are aimed at the development of Estonian football and regional education.

Membership in the governing bodies of other organisations: Subsidiaries and associates of AS Nordic Contractors (council), AS Lilleküla Jalgpallistaadion (council), Toidutark OÜ (board), Estonian Football Association, Pelgulinna Education Society, Nõmme Private Education Foundation

Interests (exceeding 5%) in other companies: none

Vello Kahro – representative of AS Nordic Contractors

Vello Kahro has graduated from the University of Tartu, Faculty of Economics, with higher education in economics. He has been working for Nordecon AS and its parent AS Nordic Contractors since 1989. From 2012 to 2015, Vello Kahro was a member of the audit committee of Nordecon AS.

Membership in the governing bodies of other organisations: Subsidiaries and associates of AS Nordic Contractors (council), OÜ Kaarlaid (board), OÜ Kaarlaid Eriveod (board), OÜ Niverto (board) and OÜ Niveraalis (board)

Interests (exceeding 5%) in other companies: OÜ Kaarlaid, OÜ Kaarlaid Eriveod, OÜ Niverto, OÜ Niveraalis

Sandor Liive – independent member (as per the Corporate Governance Code of the Tallinn Stock Exchange)

Sandor Liive has graduated from Tallinn University of Technology, Faculty of Economics, with higher education in economics. He has studied management at the IMD, INSEAD and Stanford business schools. From 1992 to 1995, he was on the board of Uus Maa OÜ. From 1995 to 1998 he was head of finance department and chief financial officer and from 1996 to 1998 also a member of the board of Tallinna Sadam AS. From 1998, Sandor Liive worked for Eesti Energia AS, first as chief financial officer and a member of the board and later, from 2005 to 2014, as chairman of the board.

Membership in the governing bodies of other organisations: OÜ Gridio (board), OÜ Inventor (board), PARKI Teadus- ja Tööstuspark OÜ (council), commercial association Tuleva (council)

Interests (exceeding 5%) in other companies: OÜ Gridio, OÜ Inventor, OÜ Callisto Group

Meelis Milder – independent member (as per the Corporate Governance Code of the Tallinn Stock Exchange)

An economics graduate of the University of Tartu, Meelis Milder has been involved in the activities of Baltika, one of the flagship companies of the Estonian clothing industry since 1984. Currently he is chairman of the board and a major shareholder in AS Baltika, which is listed on the NASDAQ OMX Tallinn Stock Exchange, and a member of the council of Tallinna Kaubamaja Grupp AS, also listed on the NASDAQ OMX Tallinn Stock Exchange. Meelis Milder is a visiting lecturer on the courses of Strategic Management and Organisational Behaviour at the University of Tartu Faculty of Economics. He has been awarded the Order of the White Star of the Republic of Estonia (Fourth Class).

Membership in the governing bodies of other organisations: Tallinna Kaubamaja Grupp AS (council), AS Baltika and its subsidiaries and associates (board/council), BMIG OÜ (board), BML Invest OÜ (board), OÜ Kodreste (board), OÜ LVM Projekt (board), OÜ Maisan (board), Estonian Chamber of Commerce and Industry (board)

Interests (exceeding 5%) in other companies: BMIG OÜ, BML Invest OÜ, OÜ Kodreste, OÜ Maisan

Board

According to the articles of association, the board has up to five members. Members of the board are elected and appointed by the council. The term of office of a member of the board is three years.

Jaano Vink, chairman of the board

Jaano Vink is a qualified construction engineer. He joined the company in 2002 as deputy CEO, having previously worked for AS Muuga CT as development director and for AS Tallinna Sadam in various managerial capacities in the infrastructure construction department. He graduated from Tallinn University of Technology, department of Industrial and Civil Engineering, in 1993 and has studied International Business Administration at the Estonian Business School. The Estonian Association of Civil Engineers has awarded him the qualification of Diploma Civil Engineer V in the field of general construction. As chairman of the board, Jaano Vink is responsible for overall management of the parent company and Nordecon AS Group.

Membership in the governing bodies of other organisations: subsidiaries of Nordecon AS (board/council)

Interests (over 5%) in other companies: Brandhouse OÜ

Avo Ambur, member of the board

Avo Ambur has been on the boards of various Group entities including the parent since 2002, being responsible for different areas as technical director, development director and since 2009 sales director. He graduated from Tallinn University of Technology, department of Industrial and Civil Engineering, in 1993. The Estonian Association of Civil Engineers has awarded him the qualification of Diploma Civil Engineer V in the field of general construction. As member of the board, Avo Ambur is responsible for Nordecon AS's sales and pre-construction operations.

Membership in the governing bodies of other organisations: none

Interests (over 5%) in other companies: Kulinvest OÜ, Jõekaare Capital OÜ, Rapla Ärimaja OÜ

Erkki Suurorg, member of the board

Erkki Suurorg joined the Group in 1999. Over the years he has served the Group as project manager and division manager and has been on the boards of various entities of Nordecon Group including the parent since 2005. He is a member of the Estonian Association of Civil Engineers and holds the highest qualification of Chartered Civil Engineer. He graduated from Tallinn University of Technology with a diploma in civil engineering in 1997. As a member of the board, Erkki Suurorg is responsible for managing the construction operations of Nordecon AS. Since 2016, Erkki Suurorg has been on the board of the Estonian Association of Construction Entrepreneurs.

Membership in the governing bodies of other organisations: subsidiaries of Nordecon AS (board/council)

Interests (over 5%) in other companies: none

Information on the shares held by the members of the council and board of Nordecon AS is presented in the chapter *Share and shareholders*.

Description of the main risks

Business risks

The main factors which affect the Group's business volumes and profit margins are competition in the construction market and changes in the demand for construction services.

Competition continues to be stiff in all segments of the construction market and in 2017 public investment is not expected to grow substantially compared with 2016. Thus, builders' bid prices are under strong competitive pressure while the prices of construction inputs have started to rise. Cut-throat competition in building construction has started to recede thanks to growth in the volume of projects put out to tender but the slump in infrastructure construction is fuelling fierce competition for the limited number of contracts. Bidders include not only well-known general contractors but also former subcontractors. The trend is attributable to the state and local governments' policy to keep the qualification requirements of public procurement tenders low, which sometimes results in the sacrifice of quality to the lowest possible price. We acknowledge the risks inherent in the performance of contracts signed 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 tough is risky because negative developments in the economy may quickly render the contract onerous. In setting our prices in such an environment, we focus on ensuring a reasonable balance of contract performance risks and tight cost control.

Demand for construction services continues to be strongly influenced by the volume of public 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. Projects supported by the EU began to have a limited impact on the construction sector in the second half of 2016 but in the next periods the process is expected to accelerate.

In the light of the above factors, we see some opportunities for achieving year-on-year business growth in 2017: business growth in Estonia is supported by positive developments in our selected foreign markets. Our action plan foresees flexible resource allocation aimed at finding more profitable contracts and performing them effectively. According to its business model, Nordecon operates in all segments of the construction market. Therefore, we are somewhat better positioned than companies that operate in one narrow (and in the current market situation particularly some infrastructure) segment.

Our business is also influenced by seasonal changes in weather conditions, which have the strongest impact on infrastructure construction 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 strategy is to counteract the seasonality of infrastructure operations with building construction that is less exposed to seasonal fluctuations. Our long-term goal is to be flexible and keep our two operating segments in relative balance (see also the chapter *Performance by business line*). Where possible, our entities implement different technical solutions that allow working efficiently also in changeable 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 insurance 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 due until the contract has been completed. To remedy construction deficiencies which may be detected during the warranty period, Group companies create warranty provisions based on their historical experience. At 31 December 2016, the Group's warranty provisions (including current and non-current ones) totalled 1,166 thousand euros (31 December 2015: 1,124 thousand euros).

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

Financial risks

Credit risk

During the period, we recognised credit losses of 563 thousand euros of which 154 thousand euros resulted from the write-down of trade receivables and 409 thousand euros from the write-down of other receivables (see also the chapter *Financial performance*). In the comparative period, credit losses totalled 22 thousand euros. The overall credit risk exposure of receivables is low because the solvency of prospective customers is evaluated, the share of public sector customers is large, and customers' settlement behaviour is consistently monitored. The main indicator of the realisation of credit risk is settlement default that exceeds 180 days along with no activity on the part of the debtor that would confirm the intent to settle.

Information on risks related to loans provided to related parties is described in notes 5 and 9 to the consolidated financial statements.

Liquidity risk

At the reporting date, the Group's current assets exceeded its current liabilities 1.20-fold (31 December 2015: 1.03-fold). Although the current ratio has improved compared with the previous year-end, the Group remains exposed to higher than usual liquidity risk. The key factor which influences the current ratio is the classification of the Group's loans to its Ukrainian associates as non-current assets.

Due to the complicated political and economic situation in Ukraine, we believe that the Group's Ukrainian investment properties cannot be realised in the short term. Accordingly, as at the reporting date the Group's loans to its Ukrainian associates of 8,637 thousand euros are classified as non-current assets.

For better cash flow management, we use overdraft facilities and factoring by which we counter the mismatch between the settlement terms agreed with customers and subcontractors. Under IFRS EU, borrowings have to be classified into current and non-current based on contract terms in force at the reporting date. At 31 December 2016, short-term borrowings totalled 6,297 thousand euros (31 December 2015: 15,715 thousand euros). Around half of the figure, i.e., 3,591 thousand euros (31 December 2015: 11,388 thousand euros) is made up of overdraft liabilities and loans which will probably be refinanced at maturity.

At the reporting date, the Group's cash and cash equivalents totalled 9,786 thousand euros (31 December 2015: 6,332 thousand euros).

Interest rate risk

Our 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. Compared with 2015, in 2016 interest-bearing borrowings declined by 1,414 thousand euros. Loan and factoring liabilities decreased (by 2,472 thousand euros) while finance lease liabilities increased (by 1,058 thousand euros). The growth in finance lease liabilities is mainly attributable to the acquisition of a new asphalt concrete plant. At 31 December 2016, interest-bearing borrowings totalled 19,399 thousand euros (31 December 2015: 20,813 thousand euros). Interest expense for 2016 amounted to 681 thousand euros (2015: 770 thousand euros).

The main source of interest rate risk is a possible rise in the variable component of floating interest rates (EURIBOR, EONIA or the creditor's own base rate). In the light of the Group's relatively heavy loan burden this would cause a significant rise in interest expense, which would have an adverse impact on profit. We mitigate the risk by pursuing a policy of entering, where possible, into fixed-rate contracts when the market interest rates are low. As regards loan products offered by banks, observance of the policy has proved difficult and most new contracts have a floating interest rate. We have entered into a derivative contract to manage the risks resulting from changes in the interest rates of the finance lease contract underlying the acquisition of the new asphalt concrete plant.

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), Ukrainian hryvnias (UAH), and Swedish kronas (SEK).

The hryvnia has been weakening because the political and economic environment in Ukraine continues to be complicated due to the conflict between Ukraine and Russia which broke out at the beginning of 2014 and at the beginning of 2015 the National Bank of Ukraine decided to discontinue determination of the national currency's indicative exchange rate. In 2016, the hryvnia weakened against the euro by around 8%. For our Ukrainian subsidiaries, this meant additional foreign exchange losses on the translation of their euro-denominated loans into the local currency. Relevant exchange losses totalled 195 thousand euros (2015: 574 thousand euros).

Exchange gains and losses on financial instruments are recognised in *Finance income* and *Finance costs* respectively. Translation of receivables and liabilities from operating activities did not give rise to any exchange gains or losses.

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

Due to movements in the Swedish krona/euro exchange rate in 2016, translation of operating receivables and payables resulted in an exchange gain of 18 thousand euros (2015: nil euros). The exchange gain has been recognised in *Other operating income*.

We do not use derivatives to hedge currency risk.

From the beginning of 2017 until the date of release of this report, the Ukrainian hryvnia has remained relatively stable against the euro.

Outlooks of the Group's geographical markets

Estonia

Processes and developments characterising the Estonian construction market

- In 2017, public investment should grow slightly but the extent to which relevant projects can be realised is still unclear. Although in the 2014-2020 EU budget period the support allocated to Estonia will increase to 5.9 billion euros (2007-2013: 4.6 billion euros), the portion that will influence the construction market will not increase. Instead, compared with the previous period, there will be a rise in allocations to intangible areas.

  Investments made by the largest public sector customers (e.g., state-owned real estate company Riigi Kinnisvara AS and the National Road Administration) which reach signature of a construction contract in 2017 will not increase substantially. The Ministry of Defence has been a positive exception for builders by carrying out procurement tenders which have made a significant contribution to market revival. Hence, the Estonian construction market as a whole (particularly infrastructure construction segments) will remain in relative stagnation. The situation is softened by the positive level of private investment in building construction.

- The long and painful process of construction market consolidation will continue, albeit slowly. In particular, this applies to general contracting in building construction where the number of medium-sized general contractors (annual turnover of around 15-40 million euros) is too large. Based on recent years' experience it is likely that stiff competition and insufficient demand will cause some general contractors to go slowly out of business or shrink in size rather than merge or exit the market. News about the difficulties of some construction companies, published at the end of 2016, show that the problems of weaker market players are escalating. According to our assessment, one reason why market consolidation has decelerated in recent years is customers' (including public sector customers') increasing desire to loosen tendering requirements to increase competition and lower the price even though this increases the risks related to security, quality, adherence to deadlines, and the builder's liability.

  Competition is stiff in all segments of the construction market, intensifying in line with market developments. The rise in the average number of bidders for a contract reflects this. However, the gap between the lowest bids made by winners and the average ones is narrowing, which shows that the quality of procurement documents is gradually improving and bidders' prices are evening up. It is clear that in the current market situation the prices of construction inputs are not going to decrease noticeably and in order to succeed companies need to be efficient. Regrettably, the number of materials producers, suppliers, and subcontractors that are trying to survive or succeed in a difficult environment by dishonest means, e.g., by supplying goods with concealed defects or considerably lower quality than the one recorded in the product certificate, has increased quite rapidly. If the trend continues, both construction service providers and end-customers will have to apply strict and thorough quality control measures to make sure that the outcome meets their expectations. Unfair competition is putting visible pressure on prices and the quality of the construction service. Unfortunately, the problem is also underpinned by the customers' (including state institutions' and state-owned companies') increasing tendency to lower the bidders' qualification requirements and prioritise quality more on paper than in practice.

- In new housing development, the success of a project depends on the developer's ability to control the input prices included in its business plan and, thus, set sales prices that are affordable for prospective buyers. Although new apartments are relatively expensive compared to the standard of living and the banks' lending terms are strict, in 2016 the housing market grew rapidly. In the second half of the year, the increase in apartment prices decelerated and hopefully the market is going to stabilise. Similarly to previous periods, successful projects include those which are in an attractive location and fill a specific niche. In Tallinn and Tartu, the picture continues to be encouraging but in the rest of the country activity is still rather sluggish.
- There is a growing contrast between the stringent terms of public contracts, which require the builder to agree to extensive obligations, strict sanctions, various financial guarantees, long settlement terms, etc., and the modest participation requirements. Lenient qualification requirements and the precondition of making a low bid have made it relatively easy for an increasing number of builders to win a contract but have heightened the risks taken by customers in terms of funding, deadlines and quality during both the contract performance phase and the subsequent warranty period.
- The input prices of the construction service have been relatively stable. However, in the second half of 2016, particularly in housing development, there emerged increasing pressure for a price increase. So far general contractors have been able to absorb this by making margin concessions but their capacity for doing this is decreasing. The construction market includes an increasing number of areas where changes in the environment may trigger a sharp price increase (e.g. materials producers' rapid and successful entry into foreign markets). The rise in housing construction has lengthened the supply periods of various essential materials and services considerably, making it impossible to carry out all processes in the former optimistic timeframes. As a result, activities require more extensive planning or may need to be postponed.
- Persisting shortage of skilled labour (including project and site managers) may start restricting companies' performance capacities, which may affect different aspects of the construction process including quality. Labour migration to the Nordic countries will remain steady and the number of job seekers who return to the Estonian construction market is not likely to increase considerably. All of the above will sustain pressure for a wage increase, particularly in the category of the younger and less experienced workforce whose mobility and willingness to change jobs is naturally higher.

Ukraine

In Ukraine, we provide general contracting and project management services to private sector customers in the segment of building construction. Political and economic instability continues to restrict the adoption of business decisions but construction activity in Kiev and the surrounding area has not halted. In 2017, we will continue our operations in Ukraine primarily in the Kiev region. Based on our order book as at the end of 2016, we expect that in 2017 our operating volumes will remain at a level comparable to 2016. Despite the military conflict in eastern Ukraine, for Nordecon the market situation in Kiev has not deteriorated compared with a year or two ago. Hard times have reduced the number of inefficient local (construction) companies and when the economy normalises we will have considerably better prospects for increasing our operations and profitability. The Ukrainian government's recent crackdown on cash-in-hand work is definitely a step in the right direction, which in the long term should also improve our position in the Ukrainian construction market. We assess the situation in the Ukrainian market regularly and critically and are ready to restructure our operations as and when necessary. Should the crisis in eastern Ukraine spread to Kiev (which at the date of release of this report is highly unlikely), we can suspend our operations immediately. We continue to seek opportunities for exiting our two real estate projects which have been put on hold or signing a construction contract with a prospective new owner.

Finland

In Finland, we have provided mainly subcontracting services in the concrete segment but, based on experience gained, have started preparations for expanding into the general contracting market. The local concrete work market allows competing for projects where the customer wishes to source all concrete works from one reliable partner. Our policy is to maintain a rational approach and avoid taking excessive risks.

Sweden

In July 2015, Nordecon Group acquired a 100% stake in SWENCN AB, a company registered in the Kingdom of Sweden, and expanded to the Swedish market where we intend to offer mainly construction of residential and non-residential buildings, particularly in central Sweden. In 2015 we signed the first contract on the construction of a five-floor apartment building in Stockholm (with a cost of around 8.4 million euros) and in 2016 another, smaller contract. In January 2017, we signed the third contract of 6.3 million euros. We will sustain efforts aimed at increasing our operations in Sweden and are currently moderately optimistic about the developments.

Latvia and Lithuania

It is not likely that we will enter the Latvian or Lithuanian construction market in the next few years.

However, we do not rule out the possibility of carrying out certain projects in Latvia through our Estonian entities, with the involvement of partners where necessary. Undertaking a project assumes that it can be performed profitably.

We have suspended the operations of our Lithuanian subsidiary, Nordecon Statyba UAB, for the time being and are monitoring developments in the Lithuanian construction market. Temporary suspension of operations does not cause any major costs for us and does not change our interest to do business in the Lithuanian construction market on a project basis through a subsidiary operating in the local market.

Corporate governance report

Nordecon AS has observed the Corporate Governance Code (CGC) promulgated by the NASDAQ OMX Tallinn Stock Exchange since the flotation of its shares on the NASDAQ OMX Tallinn Stock Exchange on 18 May 2006. This report provides an overview of the governance of Nordecon AS in 2016 and its compliance with CGC. It is recommended that an issuer comply with CGC or explain any non-compliance in its corporate governance report. In 2016, Nordecon AS observed CGC unless indicated otherwise in this report.

General meeting

Exercise of shareholder rights

The general meeting is the highest governing body of Nordecon AS. General meetings are annual and extraordinary. The powers of the general meeting are set out in the Commercial Code of the Republic of Estonia and the articles of association of Nordecon AS. Among other things, the general meeting has the power to approve the annual report, decide allocation of profits, amend the articles of association, appoint the auditors, and elect members of the company's council. A shareholder may attend the general meeting and vote in person or through a proxy carrying relevant written authorisation. General meetings are held on business days in a place that should allow the largest possible number of shareholders to attend the general meeting.

Shareholders may send questions about the agenda items before the general meeting to the company's registered address or e-mail address that are included in the notice of the general meeting. The company replies to all relevant questions before the general meeting on its website or during the meeting when the relevant agenda item is being discussed. In 2016, shareholders did not ask any questions about the agenda items before the general meeting. All questions and answers are available on the website until information about the next general meeting is published.

In 2016, the company was represented at the general meeting by all three members of the board who attended the meeting and were available to shareholders during the meeting. Chairman of the board, Jaano Vink, gave a presentation on the company's financial performance and answered shareholders' questions.

All shares issued by Nordecon AS are registered ordinary shares. A shareholder may not demand issue of a share certificate for a registered ordinary share. A shareholder may not demand that a registered share be exchanged for a bearer share. The shares are freely transferable and may be pledged. The board of Nordecon AS is not aware of any shareholder agreements that restrict transfer of the shares. Upon the death of a shareholder, the share will transfer to the shareholder's heir. From the point of view of Nordecon AS, a share is considered transferred when the acquirer has been entered in the share register.

In 2016, Nordecon AS complied with the subsections of section 1.1 of CGC that relate to shareholder rights.

Calling of a general meeting and information to be published

The annual general meeting of Nordecon AS took place on 25 May 2016. The meeting was held in the Conference Centre of the Radisson Blu Hotel Olümpia in Tallinn and it started at 10.00 am. The meeting was called by the board of Nordecon AS.

The notice of a general meeting includes information on the reason for calling the meeting as well as the parties that proposed it. Notices of annual general meetings and extraordinary general meetings are published in a national daily newspaper at least three weeks and at least one week in advance respectively. In addition, notices of general meetings are published in the information system of the NASDAQ OMX Tallinn Stock Exchange and on the company's website. The notice includes information on where the annual report and other documents relevant for adopting resolutions at the general meeting will be made available to the shareholders. All relevant documents are also made available on the company's website at www.nordecon.com.

The company discloses the reasons for the general meeting and provides explanations of those agenda items that involve a significant change (e.g., amendment of articles of association, extraordinary transactions). The company enables shareholders to review information about the questions shareholders have asked about the general meeting and the agenda items.

Concurrently with complying with legal requirements to calling a general meeting, the board publishes on the company's website all information relevant to the agenda that has been provided to it or is otherwise available and is required for making decisions at the general meeting.

Depending on the agenda of the general meeting, the following information may qualify as relevant: the profit allocation proposal, the draft of new or amended articles of association together with an outline of the proposed amendments, significant terms and contracts or draft contracts concerning the issue of securities or other transactions (mergers, disposals of assets, etc.) involving the company, information on a candidate for a member of the council and the company's auditor, etc.

Information published in respect of a candidate for a member of the council includes information on the candidate's participation in the governing bodies (council, board, executive management) of other companies.

Within reasonable time before the general meeting, the council publishes its proposals regarding the agenda items on the company's website. Any proposals made by shareholders before the general meeting that relate to the subject matter of agenda items or differ from those of the council are also published on the company's website.

In 2016, Nordecon AS complied with the subsections of section 1.2 of CGC that relate to calling a general meeting and information to be published.

Conduct of a general meeting

The working language of a general meeting is Estonian. A general meeting may not be chaired by a member of the council or the board. In the period, the general meeting was chaired by a person not connected with the company.

As a rule, a general meeting is attended by all members of the board, the chairman of the council and, where possible, members of the council and at least one of the auditors. A general meeting is also attended by a candidate for a member of the council if the candidate has not been a member of the council before and the auditor candidate. In 2016, the general meeting was attended by chairman of the board Jaano Vink, members of the board Avo Ambur and Erkki Suurorg, chairman of the council Toomas Luman and member of the council Andri Hõbemägi.

The general meeting discusses allocation of profits as a separate item and adopts a separate resolution on it.

In 2016, Nordecon AS complied with the subsections of section 1.3 of CGC, except for 1.3.3 and 1.3.2. The company did not consider it practicable to make the annual general meeting available to observers and participants via the Internet. The auditor of Nordecon AS did not attend the general meeting.

Board

Responsibilities of the board

The board is a governing body of Nordecon AS that represents and manages the company in its daily operations. The articles of association allow each member of the board to represent the company in any legal proceedings. The board acts in the best interests of the company and all its shareholders and undertakes to ensure that the company develops sustainably and in accordance with its objectives and strategy. The board has to ensure that the company's risk management and internal controls are appropriate and suitable for its business.

In order to ensure effective risk management and internal control, the board:

- analyses the risks inherent in the company's operations and financial targets (including environmental, competition and legal risks);
- prepares relevant internal rules and regulations;
- develops the forms and instructions for the preparation of financial statements required for making management decisions;
- ensures operation of the control and reporting systems.

The board observes lawful instructions of the council of Nordecon AS. The board does its best to ensure that the Group's parent company and all entities belonging to the Group comply with governing laws and regulations.

In 2016, the board and council of Nordecon AS exchanged information in accordance with relevant requirements. The board informed the council of the Group's performance and financial position on a regular basis.

In 2016, Nordecon AS complied with the subsections of section 2.1 of CGC that relate to responsibilities of the board.

Composition and remuneration of the board

Composition of the board

The council appoints and removes members of the board and appoints the chairman of the board from among them. According to the articles of association, the board has one to five members who are elected for a term of three years.

The board or the council determines the area of responsibility of each member of the board, specifying the duties and powers of each member of the board in as much detail as possible, and outlines the basis of cooperation between members of the board. A member of the board may be a member of the council of another Group entity. The chairman of the council signs a service contract with a member of the board.

During their term of office, the members of the board of Nordecon AS may not serve on the board or in the council of any other listed company.

In 2016, the board had the following members:

Name	Position/area of responsibility	Beginning of term of office	End of term of office
Jaano Vink	**Chairman of the Board** General management of Nordecon AS and the Group	5 August 2002	31 July 2017
Avo Ambur	**Member of the Board** Management of the sales and pre-construction operations of Nordecon AS	1 January 2011	31 July 2017
Erkki Suurorg	**Member of the Board** Management of the construction operations c Nordecon AS	1 January 2011	31 July 2017

Remuneration of the board

A member of the board is paid a monthly service fee, which is fixed in the service contract. The council decides the remuneration of members of the board based on an appraisal of their work. The council appraises a board member's work by taking into account the board member's responsibilities and activities, the activities of the entire board as well as the company's financial position, current financial performance and future prospects and, if necessary, compares these with the corresponding indicators of other companies in the same industry. The service fee includes a 10% fee for observing the prohibition on competition.

Under the service contract, a member of the board may also be eligible for the following additional monetary incentive payments:

- Performance-related pay for achieving the targets set for the financial year. The basis for performance-related pay is consolidated EBITDA (operating profit plus amortisation and depreciation expense) before the effect of the performance-related pay of members of the board. Each targeted EBITDA level is assigned a coefficient. Performance-related pay is calculated by multiplying the service fee with the coefficient.

  Board members are not eligible for performance-related pay if the targets for the year are not achieved or performance-related pay was assigned based on data that proved (e.g., after the audit) materially inaccurate.

- Benefits for observing the prohibition on competition after the expiry of the service contract (for a member of the board six-fold and for the chairman of the board 12-fold average monthly service fee together with performance-related pay).

  Payment of benefits is justified because board members are subject to a prohibition on competition which restricts their activities during the period for which the benefits are paid.

- Termination benefits payable on the expiry of the service contract (six-fold average monthly service fee together with performance-related pay).

A board member is not eligible for termination benefits if the service contract is terminated at the board member's request, the board member is removed due to breach of the law, the board member breaches the service contract, or the board member's activities have caused direct damage to the company. Nor are any termination benefits paid when the parties agree to extend a board member's service contract for another term of office.

Under a share option plan approved by the general meeting in 2014, members of the board have been granted share options. Under option agreements that have been signed, the chairman of the board may acquire 291,380 shares and members of the board may acquire 250,000 shares in Nordecon AS.

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 accordance with the procedure specified in the option agreement and the terms and conditions of the option plan. The share options may not be transferred. Exercise of options by members of the board is linked to achievement of the Group's EBITDA target for 2016 (from 4,491 thousand euros to 11,228 thousand euros).

In 2016, the service fees of the members of the board of Nordecon AS amounted to 350 thousand euros and associated social security charges totalled 116 thousand euros (2015: 322 thousand euros and 106 thousand euros respectively). Expenses on the provision for board members' performance-related pay, made based on the Group's performance indicators, totalled 243 thousand euros and the provision for associated social security charges amounted to 80 thousand euros (2015: 188 thousand euros and 62 thousand euros respectively).

In 2016, Nordecon AS complied with the subsections of section 2.2 of CGC, except for 2.2.7, that relate to the composition and remuneration of the board. The company does not disclose the individual remuneration of each member of the board because it believes the information has little significance and is highly sensitive in an environment of stiff competition.

Conflicts of interest

Members of the board may engage in duties and work assignments that are not part of their board member responsibilities only with the consent of the council. In the reporting period, members of the board did not request the council's permission for engaging in such duties or assignments.

Members of the board may not compete with Nordecon AS without the prior consent of the council. In the reporting period, members of the board did not request the council's permission for engaging in competing activities.

Board members are required to inform other members of the board and the chairman of the council of any business offerings made to them, their close family members or other persons connected with them, which concern the company's business. The council decides the performance of a transaction between the company and a member of the board, a board member's close family member or a person connected with a board member, if the transaction is significant for the company, and determines the terms of such a transaction.

In the reporting period, members of the board, their family members and persons connected with them did not receive any business offerings that ought to be treated as a conflict of interest.

A member of the board or an employee may not demand or take money or other benefits from a third party in connection with their work and may not provide unlawful or baseless benefits to a third party in the name of the company. During the reporting period neither the board nor, as far as the board is aware, the employees breached this policy.

In 2016, Nordecon AS complied with the subsections of section 2.3 of CGC that relate to conflicts of interest.

Council

Responsibilities of the council

The council is responsible for exercising regular control over the activities of the board. The council participates in the adoption of significant decisions concerning the company's operation. The council acts independently and in the best interests of the company and all its shareholders.

The council determines the company's strategy, overall action plan, risk management principles and annual budget and reviews them on a regular basis. The council ensures, in cooperation with the board, that the company's activities are planned on a long-term basis.

The council assesses how the board implements the company's strategy on a regular basis. The council assesses the company's financial position and risk management systems as well as whether the board's activities are lawful and whether essential information concerning the company is appropriately disclosed to the council and the public.

The council has set up an audit committee that is responsible for advising the council in matters concerning the company's accounting, auditing, risk management, internal control, supervision, budgeting and legal compliance. Further information on the audit committee is available on the company's website.

The chairman of the council maintains regular contact with the board and discusses with them issues related to the company's strategy, business operations and risk management.

The chairman of the board has to notify the chairman of the council promptly of any significant event that may affect the company's development and management. The chairman of the council conveys the information to the council and, where necessary, calls an extraordinary meeting of the council.

The work of the council is organised by the chairman. The chairman of the council determines the agenda of council meetings, chairs council meetings, monitors the effectiveness of the work of the council, organises swift delivery of information to council members, ensures that council members have sufficient time for preparing a resolution and reviewing the information received and represents the company in relations with the company's board. In 2016, the council had six meetings including four meetings in which all council members participated. In addition, two times resolutions were adopted electronically, in both cases all council members participated.

In 2016, Nordecon AS complied with the subsections of section 3.1 of CGC that relate to responsibilities of the council.

Composition and remuneration of the council

A person may be elected as a member of the council if the person has the knowledge and experience required for participating in the work of the council. Matters that need to be considered on electing a member of the council include the nature of the activities of the council and the company, potential conflicts of interest and, where necessary, the age of the person. The composition of the council has to be small enough to allow for effective management and large enough to allow for the involvement of appropriate expertise.

According to the articles of association, the council has three to seven members. The number is decided by the general meeting. Council members are elected by the general meeting for a term of five years. Members of the council elect a chairman from among themselves.

In 2016, the council had the following members:

Name	Position	Beginning of term of office	End of term of office
Toomas Luman	Chairman of the Council, representative of AS Nordic Contractors	9 January 2006	20 May 2020
Andri Hõbemägi	Member of the Council, representative of AS Nordic Contractors	25 May 2013	24 May 2018
Vello Kahro	Member of the Council, representative of AS Nordic Contractors	20 May 2015	20 May 2020
Sandor Liive	Member of the Council, independent	20 May 2015	20 May 2020
Meelis Milder	Member of the Council, independent	9 January 2006	20 May 2020

The general meeting decides the council's remuneration and its payment procedure based on the nature and scope of the council's responsibilities and the company's financial position. Depending on the nature of the council's work, shareholders may take into account the specific features of the work done by the chairman of the council.

According to a resolution adopted by the general meeting on 20 May 2015, from 1 June 2015 the chairman's basic monthly service fee is 7,490 euros and the basic monthly service fee of other council members is 1,000 euros. In addition, based on a resolution adopted by the general meeting on 28 May 2012, the company has created a performance-related pay system for the chairman of the council. Performance-related pay is linked to achievement of Nordecon AS's targets for the financial year and it is calculated and paid on the same basis as the performance-related pay of the members of the board of Nordecon AS. The performance-related pay provided to the chairman of the council may not exceed two thirds of the performance-related pay calculated for a member of the board.

In 2016, the service fees of the members of the council of Nordecon AS amounted to 138 thousand euros and associated social security charges totalled 45 thousand euros (2015: 139 thousand euros and 46 thousand euros respectively). Expenses on the provision for performance-related pay, made based on the Group's performance indicators, totalled 47 thousand euros and the provision for associated social security charges amounted to 16 thousand euros (2015: 37 thousand euros and 12 thousand euros respectively).

In 2016, Nordecon AS complied with the subsections of section 3.2 of CGC that relate to council members' responsibilities.

Conflicts of interest

Members of the council avoid conflicts of interest. In their activity as council members, they have to put the company's interests before those of their own or third parties. Members of the council may not use business offerings made to the company for their personal gain.

A member of the council may not vote at a meeting in matters concerning provision of consent for a transaction between Nordecon AS and the member of the council or a similar conflict of interest involving a party connected with the member of the council. A member of the council may not compete with Nordecon AS without the consent of the general meeting or use for personal gain any business offerings made to the company.

In 2016, Nordecon AS complied with the subsections of section 3.3 of CGC that relate to council members' responsibilities.

Cooperation of the board and the council

The company's board and council cooperate in ensuring continuous and effective information exchange. Members of the board participate in council meetings that take place at least quarterly for reviewing the company's financial performance. In addition, as a rule, the chairman of the board is invited to other council meetings that examine matters related to the company's operation.

In 2016, the board and the council worked closely in monitoring completion of the company's development plan and achievement of the company's strategic objectives for 2016-2020. The board observes the council's strategic instructions and discusses strategic management issues with the council on a regular basis.

The responsibilities of the council and the board are outlined in the company's articles of association. If assignment of certain management responsibilities is not outlined in the articles of association, the provisions of the Estonian Commercial Code are observed.

The board informs the council via the chairman of the council on a regular basis about all significant circumstances relating to the company's operation, business planning, operational risks and risk management. In particular, the board highlights such changes in the company's operation that cause deviations from previously approved objectives and plans and provides explanations for them. Such information including all significant details is conveyed to the council via the chairman of the council forthwith and in full.

Large amounts of data supplied by the board, which require sufficient time for reviewing before a decision can be made, are delivered to council members before the council meeting. In mutual exchange of information, members of the board and council observe confidentiality rules, which ensure control over movement of price-sensitive information.

In 2016, Nordecon AS complied with the subsections of sections 4.1 to 4.3 of CGC that relate to cooperation between the board and the council.

Application of the diversity policy

Under section 24^2 subsection 4 of the Estonian Accounting Act, a large undertaking whose securities that carry voting rights have been admitted for trading on a regulated securities market of Estonia or another contracting state (party to the EEA agreement) has to describe in its corporate governance report the diversity policy applied in respect of its board and higher governing body and the results thereof during the reporting period. If no diversity policy has been applied during the period, the reasons for this should be explained in the corporate governance report.

In 2016, the Group did not apply a diversity policy because both managers and employees are selected based on the Group's interests and people are hired and appointed based on their education, skills and prior work experience. However, the Group observes the policy of not discriminating against any candidate based on their gender or other factors.

Disclosure of information

Disclosure of information on the company's website and in the information system of the stock exchange

In disseminating information, Nordecon AS endeavours to treat all shareholders as equally and fairly as possible and to communicate all significant events without delay. Observance of the equal treatment principle does not revoke the right to postpone the disclosure of inside information or the right to provide unpublished inside information to persons entitled to it. The main information channels that the company uses for notifying shareholders and investors are the information system of the NASDAQ OMX Tallinn Stock Exchange and the company's website www.nordecon.com. In those channels, information is released simultaneously in Estonian and in English.

The company discloses information in accordance with the rules of the NASDAQ OMX Tallinn Stock Exchange and the provisions of the Estonian Securities Act. In 2016, the company's threshold for notifying of significant construction contracts was 3.2 million euros. In 2016, Nordecon AS made 26 stock exchange announcements that were released concurrently via the information system of the NASDAQ OMX Tallinn Stock Exchange and the company's website.

Nordecon AS has disclosed its financial calendar, which outlines the dates or weeks of information release during the year (concerning the annual report, interim reports and the notice of the annual general meeting), on its website and via a separate announcement in the information system of the stock exchange. In addition, the company has made available on its website information on specific reports and data as required by section 5.3 of CGC.

Meetings with investors and financial analysts

Meetings with investors are organised as and when requested by investors. Nordecon AS exchanges information with journalists and analysts with due care and deliberation using appointed spokespersons. In communicating with analysts, the company refrains from actions that could compromise the independence of the analysts or the company. During the year, the company did not arrange meetings with analysts or presentations for investors directly before the date on which a financial report (interim or annual) was released.

The presentations used at meetings with investors are published in the information system of the stock exchange and are made available on the company's website. The company's investor relations contacts are available on the company's website. All shareholders may use the contacts to request a meeting with the company's representatives or answers to their questions.

In 2016, Nordecon AS complied with chapter 5 of CGC that relates to disclosure of information, except for the following sections:

The company did not disclose the dates and places of meetings with analysts and the presentations organised for analysts, investors or institutional investors on its website in advance, as required by section 5.6, so that shareholders could participate. Compliance with this requirement often involves technical difficulties.

The company believes that by making the information available on its website and by being open and approachable in its shareholder relations it has created adequate alternatives and conditions which ensure that information is equally available to all shareholders. The company does not disseminate inside information at meetings with investors and financial analysts but uses financial information and presentations that have already been released.

Financial reporting and auditing

Financial reporting

Preparation of financial reports and statements is the responsibility of the board of Nordecon AS. The consolidated financial statements of Nordecon AS are prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS EU). The financial statements are prepared and submitted for approval in conformity with the Estonian Accounting Act, the rules of the stock exchange, the Estonian Commercial Code and other applicable legislation.

Nordecon AS releases its quarterly financial reports after their preparation and approval by the board and its annual report as soon as the report has been signed by the council.

The annual report that has been approved by the board and the council is submitted to the shareholders together with the council's written report on it as required by section 331(1) of the Commercial Code.

The company has disclosed in the financial statements financial information on companies that have not been consolidated but in which the company has a significant interest (note 12) and transactions with shareholders (note 35).

In 2016, Nordecon AS complied with the subsections of section 6.1 of CGC, except for 6.1.1, that relate to financial reporting.

The council did not deem it necessary to invite the auditor to the meeting that approved the annual report because the independent auditor had issued an unqualified report on the consolidated financial statements.

Auditing

Together with the notice of the annual general meeting, the council makes available to the shareholders its assessment of the services provided by the auditor in the past financial year. The assessment includes the services provided and the fees paid to the auditor.

In the reporting period, the auditor did not notify the council of having become aware of any significant circumstances that might influence the work of the council or management of the company. Nor did the auditor notify the council of any risks to the auditor's independence or professional integrity. The auditor meets the members of the audit committee of Nordecon AS at least once a year.

The auditor's responsibilities and fee and the timeframe of services provided are set out in the audit services agreement signed with the auditor. Under the agreement, the auditor performs the audit in accordance with International Standards on Auditing (Estonia). The auditor can express an opinion on the company's activities without any constraints imposed by the company.

In the reporting period, the auditor's services comprised the agreed audit services as well as tax advice, translation services and other work including agreed-upon procedures. Altogether, the fees Nordecon AS paid to the auditor in 2016 totalled 47 thousand euros.

The auditor provided the audit committee formed by the council with a written memorandum on the company's audit of 2016, the auditor's findings and other significant matters that were discussed with the board.

In 2016, Nordecon AS complied with the subsections of section 6.2 of CGC that relate to auditing.

Management's confirmation and signatures

The board confirms that directors' report presents fairly the operations, development, financial performance and financial position of the Group consisting of the parent and all consolidated entities and contains a description of the main risks and uncertainties.

Jaano Vink	Chairman of the Board	20 April 2017
Avo Ambur	Member of the Board	20 April 2017
Erkki Suurorg	Member of the Board	20 April 2017

Consolidated financial statements

Consolidated statement of financial position

EUR '000 As at 31 December	Note	2016	2015
ASSETS			
Current assets			
Cash and cash equivalents	8	9,786	6,332
Trade and other receivables	9	21,055	17,503
Prepayments	10	1,644	1,599
Inventories	11	22,992	23,603
Total current assets		**55,477**	**49,037**
Non-current assets			
Investments in equity-accounted investees	12	1,640	1,179
Other investments		26	26
Trade and other receivables	9	10,816	10,516
Investment property	13	4,929	4,929
Property, plant and equipment	14	11,111	9,623
Intangible assets	15	14,623	14,609
Total non-current assets		**43,145**	**40,882**
TOTAL ASSETS		**98,622**	**89,919**
LIABILITIES			
Current liabilities			
Borrowings	16	6,297	15,715
Trade payables	18	29,811	22,538
Other payables	19	5,389	5,475
Deferred income	20	4,128	3,233
Provisions	21	753	825
Total current liabilities		**46,378**	**47,786**
Non-current liabilities			
Borrowings	16	13,102	5,098,
Trade payables	18	98	104
Other payables	19	117	96
Provisions	21	881	768
Total non-current liabilities		**14,198**	**6,066**
TOTAL LIABILITIES		**60,576**	**53,852**
EQUITY			
Share capital	22	19,720	20,692
Own (treasury) shares		-1,550	-1,582
Share premium		564	547
Statutory capital reserve	22	2,554	2,554
Translation reserve	22	1,549	1,358
Retained earnings		13,091	10,970
Total equity attributable to owners of the parent		**35,928**	**34,539**
Non-controlling interests		**2,118**	**1,528**
TOTAL EQUITY		**38,046**	**36,067**
TOTAL LIABILITIES AND EQUITY		**98,622**	**89,919**

The notes on pages 47-102 are an integral part of these consolidated financial statements.

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Date/kuupäev........20.04.2017..........
Signature/allkiri........................
KPMG, Tallinn

Consolidated statement of comprehensive income

EUR '000	Note	2016	2015
Revenue	25	183,329	145,515
Cost of sales	27	-172,350	-136,484
Gross profit		**10,979**	**9,031**
Marketing and distribution expenses		-413	-412
Administrative expenses	28	-6,106	-5,026
Other operating income	29	362	464
Other operating expenses	29	-614	-124
Operating profit		**4,208**	**3,933**
Finance income	30	463	655
Finance costs	30	-1,088	-4,383
Net finance costs		**-625**	**-3,728**
Share of profit of equity-accounted investees	12	609	226
Profit before income tax		**4,192**	**431**
Income tax expense	31	-259	-257
Profit for the period		**3,933**	**174**
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Exchange differences on translating foreign operations		191	587
Total other comprehensive income		**191**	**587**
TOTAL COMPREHENSIVE INCOME		**4,124**	**761**
Profit attributable to:			
- Owners of the parent	23	3,044	179
- Non-controlling interests		889	-5
Profit for the period		**3,933**	**174**
Total comprehensive income attributable to:			
- Owners of the parent		3,235	766
- Non-controlling interests		889	-5
Total comprehensive income for the period		**4,124**	**761**
Earnings per share attributable to owners of the parent:			
Basic earnings per share (EUR)	23	0.10	0.01
Diluted earnings per share (EUR)	23	0.10	0.01

The notes on pages 47-102 are an integral part of these consolidated financial statements.

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Consolidated statement of cash flows

EUR '000	Note	2016	2015
Cash flows from operating activities			
Cash receipts from customers[1]		214,871	179,119
Cash paid to suppliers[2]		-179,312	-151,004
VAT paid		-7,217	-5,407
Cash paid to and for employees		-20,208	-19,921
Income tax paid		-197	-103
Net cash from operating activities		**7,937**	**2,684**
Cash flows from investing activities			
Paid on acquisition of property, plant and equipment		-148	-480
Paid on acquisition of intangible assets		-25	-21
Proceeds from sale of property, plant and equipment		160	337
Acquisition of a subsidiary	7	-15	-8
Acquisition of an investment in an associate	12	0	-355
Proceeds from disposal of a subsidiary		6	0
Loans provided		-81	-291
Repayment of loans provided		55	124
Dividends received		153	108
Interest received		2	366
Net cash from/used in investing activities		**107**	**-220**
Cash flows from financing activities			
Proceeds from loans received		2,847	2,099
Repayment of loans received		-2,262	-3,449
Finance lease principal paid		-2,478	-1,726
Interest paid		-695	-767
Dividends paid		-1,068	-1,091
Reduction of share capital		-923	0
Net cash used in financing activities		**-4,579**	**-4,934**
Net cash flow		**3,465**	**-2,470**
Cash and cash equivalents at beginning of year		**6,332**	**8,802**
Effect of movements in foreign exchange rates		-11	0
Increase/decrease in cash and cash equivalents		3,465	-2,470
Cash and cash equivalents at end of year		**9,786**	**6,332**

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

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

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Consolidated statement of changes in equity

EUR '000	Equity attributable to owners of the parent								
	Share capital	Treasury shares	Capital reserve	Share premium	Translation reserve	Retained earnings	Total	Non-controlling interests	Total
Balance at 31 December 2014	**20,692**	**-1,582**	**2,554**	**547**	**771**	**11,714**	**34,696**	**1,671**	**36,367**
Profit for the period	0	0	0	0	0	179	179	-5	174
Other comprehensive income	0	0	0	0	587	0	587	0	587
Transactions with owners									
Dividend distribution	0	0	0	0	0	-923	-923	-138	-1,061
Total transactions with owners	**0**	**0**	**0**	**0**	**0**	**-923**	**-923**	**-138**	**-1,061**
Balance at 31 December 2015	**20,692**	**-1,582**	**2,554**	**547**	**1,358**	**10,970**	**34,539**	**1,528**	**36,067**
Profit for the period	0	0	0	0	0	3,044	3,044	889	3,933
Other comprehensive income	0	0	0	0	191	0	191	0	191
Changes in non-controlling interests	0	0	0	0	0	0	0	-154	-154
Transactions with owners									
Dividend distribution	0	0	0	0	0	-923	-923	-145	-1,068
Reduction of share capital	-972	32	0	17	0	0	-923	0	-923
Total transactions with owners	**-972**	**32**	**0**	**17**	**0**	**923**	**-1,846**	**-145**	**-1,991**
Balance at 31 December 2016	**19,720**	**-1,550**	**2,554**	**564**	**1,549**	**13,091**	**35,928**	**2,118**	**38,046**

Further information on share capital and other equity items is provided in note 22.

The notes on pages 47-102 are an integral part of these consolidated financial statements.

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NOTE 1. General information about the Group

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 controlling shareholder and the party controlling Nordecon Group is AS Nordic Contractors that holds 50.99% of the shares in Nordecon AS. Through AS Nordic Contractors, Nordecon Group's ultimate controlling party is Toomas Luman. The Nordecon AS shares have been listed on the NASDAQ OMX Tallinn Stock Exchange since 18 May 2006.

The consolidated financial statements of Nordecon AS (also referred to as 'the company' and 'the parent') as at and for the year ended 31 December 2016 comprise the company and its subsidiaries (together referred to as 'the Group') and the Group's interests in associates and joint ventures. The Group's primary activities are building and infrastructure construction (as a general contractor) and, within strategic limits, real estate development. In addition to Estonia, the Group operates through its subsidiaries and associates in Ukraine, Finland and Sweden. The operations of the Lithuanian subsidiary have been suspended.

NOTE 2. Statement of compliance and basis of preparation

Statement of compliance

The consolidated financial statements of Nordecon AS Group as at and for the year ended 31 December 2016 have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS EU). The parent company's primary financial statements are presented in note 38 to the consolidated financial statements in accordance with the requirements of the Republic of Estonia Accounting Act.

The accounting policies set out below have been applied consistently to all periods presented in the financial statements.

Under the Estonian Commercial Code, the annual report (including the consolidated financial statements) that has been prepared by the board and approved by the council must also be approved by the shareholders' general meeting. The general meeting may decide not to approve the annual report prepared and submitted by the board and may demand that a new annual report be prepared.

The board authorised these consolidated financial statements for issue on 20 April 2017.

Basis of measurement

The consolidated financial statements have been prepared under the historical cost convention except for investment properties and derivative financial instruments which have been measured at fair value. The methods used to measure fair value are described in note 5.

Functional and presentation currency

The functional currency of all Group entities is the currency of the primary economic environment in which they operate: in Estonia, Lithuania and Finland the euro (EUR), in Sweden the Swedish krona (SEK), and in Ukraine the Ukrainian hryvnia (UAH). The consolidated financial statements are presented in euros. The financial information in the primary financial statements and the notes is presented in thousands of euros, rounded to the nearest thousand unless indicated otherwise.

Use of significant accounting estimates and judgements

The preparation of financial statements in conformity with IFRS EU requires management to make judgements, estimates and assumptions that affect the application of policies and the reported amounts of assets, liabilities, income and expenses. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Although management's estimates and underlying assumptions are reviewed on a regular basis and they are based on historical experience and the best available information about probable future events, actual results may differ from those estimates.

In 2016, the Group conducted most of its business in Estonia where the year was characterised by slow but steady economic growth. Estonia's gross domestic product (GDP) grew by 1.6% (2015: 1.1%). GDP growth was driven by trade, information technology and communications, and transport but the contribution of over half of economic activities was positive.

Volumes in the local construction market grew after a two-year decline. In 2016, the Estonian construction companies' total output (in current prices) was 2.1 billion euros, 3% up on 2015. Building and infrastructure construction accounted for 1.4 billion euros and 0.7 billion euros of the total respectively. Compared with 2015, construction of new buildings grew by 9% while the construction of infrastructure assets contracted by a tenth. The real estate market sustained growth: the total value of real estate transactions conducted in 2016 was 2.8 billion euros (2015: 2.7 billion euros). The real estate market was active in the segment of completed housing but interest in plots without buildings and relevant transaction activity remained relatively low.

Demand for construction services continues to be strongly influenced by public investment, which in turn depends on the co-financing received from the EU structural funds. In 2017, public investment is expected to grow somewhat, particularly in the infrastructure segment which has been in a prolonged slump.

Thus, the Group's management has had to make estimates and exercise judgement in an environment where reliable broad-based information on the market prices of some assets is often unobtainable and, due to global economic developments, the outlooks of the construction and real estate markets continue to be relatively uncertain.

Critical estimates (E) and judgements (J) that have the most significant effect on the financial statements relate to the following areas:

Recognition of construction contract revenue by reference to the stage of completion method (note 26) (E)

When the outcome of a construction contract can be estimated reliably, contract revenue is recognised by reference to the stage of completion of the contract activity at the reporting date. The Group estimates the stage of completion by systematic budgeting, keeping track of actual revenues and expenses and adjusting estimates made. The estimated outcome of each construction contract is subject to regular control by different levels of management that analyse any deviations from the budget and revise the estimate as and when necessary.

The effect of a change in contract revenue and/or estimated contract costs is accounted for as a change in an accounting estimate. The revised estimates are used to determine the amount of revenue and expenses recognised in profit or loss in the period in which the estimate is changed and in subsequent periods.

In the period, management estimated the outcome (profit/loss) of construction contracts in progress taking into account the fact that during contract activity there was no indication that the total costs of any contract would exceed or already exceeded the total contract revenue. Management's ability to make accurate estimates is critical because an expected loss would have to be recognised immediately. Estimates of total contract costs depend primarily on management's estimates of changes in input prices compared with the originally budgeted ones.

Determination of the net realisable value of inventories (note 11) (E)

In accordance with the Group's accounting policies, inventories are measured at the lower of cost and net realisable value. Accordingly, management has to estimate the value of inventories whenever there is any indication that the carrying amount of inventories may have decreased below their cost. If this has occurred, inventories are written down to their net realisable value, i.e., the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

The Group is involved in real estate development in Estonia and apartments built for sale are recognised as inventories until their sale (until the signature of the real right contract, see note 5 for explanation of the real right contract). The Group estimates the carrying amounts of unsold apartments carried in inventories by comparing the carrying amounts to the actual sales prices of similar apartments sold shortly before or after the reporting date.

On estimating the values of properties (plots of land) acquired for development, the Group relies on valuation reports issued by independent certified real estate appraisers and, where necessary, the calculations of its own real estate specialists. Most of the properties have a detailed design plan or proceedings for the adoption of a detailed design plan have been started. The properties are located in or near Estonia's four regional hubs (Tallinn, Tartu, Pärnu and Narva). Although in 2016 the number and total value of transactions in the real estate market increased, the reports issued by real estate appraisers state that it is still not possible to measure the sales prices (market values) of all properties (plots) without buildings that are in the initial stage of development reliably using the sales comparison method. Most of the Group's properties fall into that category.

Where appraisers were unable to determine the value of properties acquired for development using the sales comparison method, the Group measured their values using the residual value method. The residual value method assumes making more estimates than the sales comparison method.

Under the residual value method, the value of a property is the sum that remains from estimated revenue from the sale of the development project planned on the property after the deduction of estimated construction and other development costs and the developer's reasonable profit margin. The valuations were performed by the Group's real estate specialists with the assistance of independent experts separately for each property, taking into account the opportunities and specific features of the detailed design plan or the planned building rights (including the region and location of the property). Based on the valuation results, there was no need to write the properties down. A sensitivity analysis of the valuations is presented in the notes to the consolidated financial statements.

Classification (J) and measurement (E) of investment properties (notes 5 and 13)

On initial recognition, properties (items of real estate) are classified to inventories, investment properties and items of property, plant and equipment on the basis of management's intentions regarding their use. On subsequent reclassification, properties are transferred from one category to another based on a change in their use or management's intentions regarding their further use. Investment properties comprise properties held to earn rentals or for capital appreciation or both.

Investment properties are measured to fair value using three methods: the discounted cash flow method, the sales comparison method or the existence of a sales contract (under the law of obligations) at the reporting date (see note 5 for information on the application of the methods).

To determine the fair values of its investment properties the Group requested valuation reports from independent certified real estate appraisers. Owing to the situation in the real estate market in the regions where the properties are located (Pärnu and Tartu), appraisers stated in their reports that the market values of the properties could not be determined reliably. Although the sales comparison method used by the appraisers was the most appropriate for making the appraisal, the number of transactions with properties without buildings (plots) was too small in those regions. Consequently, it was not possible to obtain reliable information as required by the valuation standards and value the properties reliably using the sales comparison method.

The Group estimated the values of properties whose market values could not be determined by independent appraisers using the discounted cash flow method. The estimates were made separately for each property, taking into account the opportunities and specific features of the detailed design plan or the planned building rights (including the location of the property). The fair value of investment properties as at the reporting date is based on those estimates. According to the Group's policy, the value of investment properties is not adjusted when the difference between the fair value measured at the end of the reporting period and the carrying amount is less than 15%. Thus, there was no need to adjust the fair values of investment properties as at the end of the reporting period. A sensitivity analysis of the valuations is presented in the notes to the consolidated financial statements.

Provisions and contingent liabilities (notes 21 and 33) (E)

Provisions are recognised in the statement of financial position based on management's best estimates of the timing and amount of the expenditure required to settle a present obligation at the reporting date. A provision is used only for covering those expenditures for which it was originally recognised.

The Group makes provisions for warranty expenses. The provisions are recognised after the completion of construction activity and delivery of the work to the customer. As a rule, a warranty is given for two years but in recent years customers have started demanding longer warranty periods (three to five years), particularly in road construction. The amount of post-construction warranty liabilities is estimated based on historical data on actual warranty expenses, which generally extend to up to 0.4% of total contract costs. Depending on the complexity of the project, the Group may recognise a warranty provision that exceeds historical data.

The Group's activities include extraction of various aggregates and fillers from quarries. Predominantly, this is done to obtain more favourably priced inputs for road construction and maintenance projects. Generally, extraction of raw material imposes the obligation to make an immediate provision for subsequent rehabilitation costs even though the monetary outlays will have to be made or the work to be carried out by the Group will have to be done when extraction operations have ended. For making a rehabilitation provision, the Group divides the estimated rehabilitation expenditure, i.e., the ultimate known cost of restoring the quarry area, by the maximum quantity permitted to be extracted or, if lower, the quantity planned to be extracted. The cost per tonne thus obtained is used to recognise and subsequently adjust the provision based on the actual quantity extracted during the period. Management reassesses the Group's rehabilitation obligations and the quantities to be extracted once a year.

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Determination of the useful lives of items of property, plant and equipment (note 14) (J)

Management estimates the useful life of an item of property, plant and equipment by reference to the expected use and wear and tear of the asset, historical experience and future prospects. According to management's assessment, the useful life of buildings and structures is 33 years and the useful lives of items of plant and equipment range from 3 to 12 years depending on their construction and purpose of use. The average useful lives of vehicles fall between 5 and 7 years and the useful lives of other equipment and fixtures range from 3 to 10 years. The useful lives of second-hand assets are estimated taking into account their technical obsolescence and physical wear and tear.

Measurement of goodwill (note 15) (E)

The Group assesses at least annually whether the recoverable amount of goodwill acquired on the acquisition of subsidiaries may have declined below its carrying amount. This is done by identifying the fair value (less costs to sell) or value in use of the cash-generating unit (CGU) to which goodwill has been allocated. Value in use is identified by estimating the future net cash flow to be derived from the CGU and by applying an appropriate discount rate so as to calculate the present value of that future cash flow. For the purposes of the Group's financial statements, a CGU is the subsidiary, associate, joint venture or business segment whose acquisition gave rise to goodwill (through purchase price allocation). The value in use of a CGU is determined by making detailed forecasts of the CGU's net cash flow for the next four years. Management makes the forecasts on the assumption that at the end of the forecast period the CGU is in a stable and financially sustainable state so that the terminal value for identifying value in use can be estimated on a going concern basis. The value in use of a CGU is compared against the cost of the investment made (including goodwill).

The projected net cash flows, which include both working capital investments and capital expenditures incurred to maintain assets in the state they are in at the time the estimate is made, are discounted at the weighted average cost of capital (both debt and equity capital). The net operating cash flows of CGUs do not depend on the capital structure of the specific entity. Therefore, in determining the discount rate, the proportions of debt and equity capital have been identified based on the industry's average ratios in the Damodaran database. The discount rates used for estimating the value in use of the Group's CGUs range from 9.0% to 9.6%.

Measurement of loans provided (note 9) (E)

In line with the Group's accounting policies, loans provided are measured at their amortised cost using the effective interest rate method. Management measures each loan on an individual basis. The need for recognising an impairment loss is estimated based on the debtor's financial position, cash flow forecasts and the value of the collateral provided.

Repayment of the loans the Group has provided to its Ukrainian associates for the acquisition and development of properties (plots) depends on how successfully the real estate projects can be realised. The Group determines the values of the development projects to be carried out on the properties with the assistance of an independent internationally recognised appraiser. According to the assessment of the Group's management, all the assumptions applied in the valuation of the loans were realistic but due to the complicated situation of the Ukrainian economy the sensitivity of the value of the loans is higher than usual. Significant inputs estimated by management included the projects' cash flows (expected rental prices), discount rates, the vacancy rates of the commercial premises to be rented out, and the time factors of the realisation of the projects (delays in completion).

NOTE 3. Significant accounting policies

Basis of consolidation

Business combinations of independent entities and acquisition of goodwill

Business combinations between independent parties are accounted for by applying the acquisition method whereby the identifiable assets acquired and the liabilities and contingent liabilities assumed (net assets acquired) are recognised and measured at their fair values at the acquisition date, i.e., at the date on which control of the acquiree is obtained. Any difference between the cost of the business combination and the fair value of the net assets acquired is recognised as goodwill. Transaction costs, i.e., the costs incurred in connection with a business combination (except for the costs to issue debt or equity instruments for acquisition) are not considered part of the cost of the business combination. Such costs are recognised in profit or loss as incurred. The acquiree's income and expenses are included in the Group's profit or loss and the goodwill acquired in a business combination is recognised in the Group's statement of financial position from the date of acquisition.

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Positive goodwill is the excess of the cost of the business combination over the acquirer's interest in the fair value of the net assets acquired. Goodwill acquired in a business combination represents a payment made by the acquirer for assets that are not capable of being individually identified and separately recognised. Positive goodwill is allocated to a cash-generating unit (CGU) or a group of cash-generating units and it is not amortised. Instead, the CGU is tested for impairment at each reporting date. Subsequent to initial recognition, goodwill is measured at cost less any accumulated impairment losses (see the policy *Impairment of assets*).

Negative goodwill is the excess of the acquirer's interest in the fair value of the net assets acquired over the cost of the business combination. Negative goodwill is recognised in profit or loss (as income) immediately.

Business combinations of entities under common control

Business combinations involving entities under the ultimate control of a company or persons controlling the Group are not accounted for in the same way as business combinations between independent parties. Business combinations of entities under common control do not give rise to positive or negative goodwill. Such transactions are accounted for by recognising the net assets acquired in the acquirer's statement of financial position at their pre-acquisition carrying amounts. The amount paid on acquisition in excess of or below the carrying amount of the net assets acquired is recognised directly in equity (as a decrease or an increase).

Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it has exposure, or rights, to variable returns from its involvement with the entity and it has the ability to use its power over the entity to affect the amount of the returns. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

The Group's Estonian subsidiaries prepare their financial statements in accordance with the Estonian generally accepted accounting principles (GAAP) and the Swedish, Ukrainian, Finnish and Lithuanian subsidiaries prepare their financial statements in accordance with the Swedish, Ukrainian, Finnish and Lithuanian GAAP respectively. Where necessary, their accounting policies are adjusted in preparing the consolidated financial statements to ensure conformity with the Group's accounting policies.

Associates and joint ventures

Associates are entities in which the investor has significant influence, but not control over the financial and operating policies. Significant influence is presumed to exist when the Group holds, directly or indirectly, through subsidiaries, 20% to 50% of the voting power of the investee.

An interest in a joint venture is recognised on the basis of a contractual arrangement whereby two or more parties make strategic financial and operating decisions relating to an economic activity that is under their joint control subject to unanimous consent.

Investments in associates and joint ventures (equity-accounted investees) are accounted for using the equity method. The investment is initially recognised at cost, which includes the transaction charges. The carrying amount of an investment includes any goodwill identified on acquisition less any subsequently recognised impairment losses.

The consolidated financial statements include the Group's share of the income and expenses and equity movements of equity-accounted investees, after adjustments to align their accounting policies with those of the Group, from the date the significant influence or joint control commences to the date the significant influence or joint control ceases. When the Group's share of loss exceeds the carrying amount of the investment, the carrying amount of the investment is reduced to nil and recognition of future losses is discontinued except to the extent that the Group has a binding obligation to restore the investee's equity. In justified cases, losses may be covered by writing down receivables from an equity-accounted investee (e.g., long-term loans).

The Group's Estonian associates and joint venture prepare their financial statements in accordance with the Estonian GAAP and the Group's Ukrainian associates prepare their financial statements in accordance with the Ukrainian GAAP. Where necessary, their accounting policies are adjusted in preparing the consolidated financial statements to ensure conformity with the Group's accounting policies.

Joint operations

Joint operations are joint arrangements which involve the use of the assets and other resources of the venturers rather than the establishment of a separate corporation or other entity, or the acquisition of jointly controlled assets. In respect of its interests in joint operations, the Group recognises in its financial statements the assets that it controls and the liabilities that it incurs as well as the expenses that it incurs and the income that it earns from the joint operation.

Transactions eliminated on consolidation

In preparing the consolidated financial statements, all intra-Group transactions, balances and unrealised profits and losses are eliminated.

Unrealised profits arising from transactions with equity-accounted investees are eliminated against the investment to the extent of the parent's interest in the investee. Unrealised losses are eliminated in the same way as unrealised profits, but only to the extent that there is no evidence of impairment of the investment and the need to write the investment down.

Translation of the financial statements of foreign subsidiaries

The assets and liabilities of foreign subsidiaries (including fair value adjustments arising on business combinations) are translated to euros at exchange rates ruling at the reporting date. The income and expenses of foreign subsidiaries are translated to euros at exchange rates ruling at the dates of the transactions or at the average exchange rate for the reporting period when the exchange rate between the euro and the foreign currency has been stable. Exchange differences on translating the financial statements of foreign subsidiaries are recognised in other comprehensive income or expense. When a foreign subsidiary is disposed of, in part or in full, so that the Group loses control, the relevant amount in the foreign currency translation reserve is transferred to profit or loss.

The exchange rates of the euro against the functional currencies of the Group's foreign operations as at the reporting date were as follows:

	Date	Swedish krona (SEK)	Ukrainian hryvnia (UAH)*
1 euro (EUR)	31 December 2016	9.5525	28.4226
1 euro (EUR)	31 December 2015	9.1895	26.2231

* The European Central Bank does not publish the exchange rate for UAH. At the beginning of 2015, the Central Bank of Ukraine ceased determining the indicative exchange rate for UAH. Therefore, the UAH exchange rate is based on the information published by Ukraine's Ministry of Finance.

Foreign currency transactions

A foreign currency transaction is recorded in the functional currency of a Group entity by applying to the foreign currency amount the exchange rate quoted by the European Central Bank or the central bank of the Group entity's domicile (as appropriate) at the date of the transaction. At the end of each reporting period, foreign currency monetary items are translated to the functional currency using the closing exchange rate.

Foreign exchange differences arising on translation are recognised in profit or loss. Foreign exchange differences on assets and liabilities related to operating activities are recognised in other operating income and other operating expenses. Foreign exchange differences on assets and liabilities related to financing and investing activities are recognised in finance income and finance costs.

At the reporting date, foreign currency non-monetary assets and liabilities are translated to the functional currency using the exchange rate at the date of acquisition except for assets measured at fair value that are translated to the functional currency using the exchange rate at the date the fair value was determined.

Financial assets

A financial asset is recognised initially at fair value plus any transaction costs that are directly attributable to its acquisition such as agents' and advisors' fees, non-recoverable taxes and similar expenditures. Exceptions include financial assets at fair value through profit or loss – the transaction costs incurred on the acquisition of those instruments are recognised as an expense in profit or loss.

Regular way purchases and sales of financial assets (except for loans provided and receivables) are recognised using trade date accounting. The trade date is the date on which the Group commits itself to purchase or sell an asset (e.g., the date on which the contract is signed). Loans and receivables are recognised on the date they originated. A purchase or sale is considered a regular way purchase or sale if the terms of the contract require delivery of the asset within the time frame established generally by regulation or convention in the marketplace concerned.

A financial asset is derecognised when the Group transfers the contractual rights to receive the cash flows of the financial asset or the rights to the cash flows expire or the Group assumes an obligation to pay the cash flows to one or more recipients to whom most of the risks and rewards of ownership of the financial asset are transferred without material delay.

Upon initial recognition, financial assets are classified into the following categories:

- financial assets at fair value through profit or loss;
- held-to-maturity investments;
- loans and receivables;
- available-for-sale financial assets.

Loans and receivables

Loans and receivables with fixed or determinable payments that have not been acquired for resale are recognised initially at their fair value plus any directly attributable transaction charges. Subsequent to initial recognition, loans and receivables are measured at their amortised cost using the effective interest rate method. The effective interest rate is the rate that discounts the estimated future cash flows (including all significant transaction costs, premiums and discounts) of an investment to the net carrying amount of that investment.

Interest income on loans and receivables is recognised in profit or loss for the period. Loans and receivables are classified as current except for items that are expected to be collected within a period exceeding twelve months.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are not cash or cash equivalents and have not been designated to any other category of financial assets. When an available-for-sale financial asset is recognised initially, it is measured at its fair value plus any directly attributable transaction charges. Subsequent to initial recognition, available-for-sale financial assets are measured at their fair value unless fair value cannot be measured reliably. When fair value cannot be measured reliably, the cost method is applied.

A gain or loss on a change in the value of an available-for-sale financial asset is recognised in other comprehensive income and in the fair value reserve in equity. When an available-for-sale financial asset is derecognised the cumulative gain or loss previously recognised in the fair value reserve is reclassified to finance income or finance costs, as appropriate, and when an available-for-sale financial asset becomes impaired, the cumulative amount that has been recognised in equity is reclassified to finance costs. An available-for-sale financial asset is classified as non-current except when the investment is expected to be realised within twelve months.

Cash and cash equivalents

Cash and cash equivalents comprise cash, demand deposits, term deposits and units in money market funds that are (based on their contract terms) readily convertible to known amounts of cash within up to three months and which are subject to an insignificant risk of changes in market value.

Financial liabilities

All financial liabilities (trade payables, borrowings, accrued expenses, and other short- and long-term payables) are recognised initially at their fair value, which includes any directly attributable transaction costs. After initial recognition, financial liabilities are measured at amortised cost using the effective interest method except for financial liabilities at fair value through profit or loss. Financial liabilities are recognised using trade date accounting, i.e., at the date they are assumed (e.g., at the date when the agreement is signed).

A financial liability is classified as current when it is due to be settled within twelve months after the reporting date or when the Group does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting date. Loan liabilities that are to be settled within twelve months after the reporting date but which are refinanced on a long-term basis between the reporting date and the date on which the financial statements are authorised for issue are reported as current liabilities. In addition, loan liabilities are classified as current if the creditor may recall the loan at the reporting date due to breach of the loan agreement.

A financial liability is derecognised when it is discharged or cancelled or expires.

Factoring

Accounting for proceeds from the sale of trade receivables (factoring of receivables) depends on whether the purchaser (the factor) has the right to transfer the receivable back to the seller in the event of the debtor's default (factoring with recourse).

Factoring with recourse is accounted for as a financing transaction with receivables as collateral. Until the factor receives the final payment from the debtor, the proceeds are recognised as interest-bearing liabilities. The difference between the proceeds and the carrying amount of the receivable is recognised in finance costs.

The Group also uses reverse factoring. Under the Group's reverse factoring arrangement, the Group's subcontractors that do not have sufficient credit standing to obtain a factoring limit from a financing institution may use the Group's limit. Purchase invoices financed under the reverse factoring arrangement are recognised in trade payables until the invoice is settled. The costs arising from the use of reverse factoring are covered by subcontractors. The Group does not incur any additional income or expenses from reverse factoring.

Inventories

Raw materials and consumables and goods purchased for resale (including properties, i.e., plots of land, acquired for development) are initially recognised at cost, which comprises all directly attributable costs of purchase and other costs incurred in bringing the inventories to their present location and condition (including borrowing costs). Building materials acquired for construction contracts are recognised as inventories (within raw materials and consumables) until they are employed in the construction process.

Work in progress is recorded at the cost of conversion. The cost of conversion of inventories comprises all direct and indirect costs of conversion incurred in bringing the inventories to their present location and condition. Materials and services employed in the construction process but related to work not delivered to the customer are classified as work in progress until delivery or, in the case of real estate development, until the completion of the asset.

Finished goods include items of real estate (e.g., apartments) which have been completed as a result of real estate development and are available for sale; such items are measured at the costs incurred in achieving their completion.

The cost of inventories is assigned using the weighted average cost formula. Exceptions include properties (plots of land) acquired for development whose cost is assigned using specific identification of their individual cost.

After initial recognition, inventories are measured at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Investment property

Investment property is property (land and buildings) held to earn rentals or for capital appreciation or both rather than for use in the production or supply of goods or services or for administrative purposes.

An investment property is measured initially at its cost. Transaction costs and other directly attributable expenditure (such as borrowing costs) are included in the initial measurement. After initial recognition, an investment property is measured to fair value at each reporting date. Gains and losses arising from changes in the fair value of an investment property are recognised in profit or loss in the period in which they arise.

An investment property is derecognised on disposal or when the investment property is permanently retired from use and no future economic benefits are expected from it. Gains and losses arising from derecognition of an investment property are recognised in profit or loss in the period of derecognition.

When there is a change in use, an investment property is reclassified. Upon reclassification, the property's deemed cost for subsequent accounting is its fair value at the date of reclassification. The property is accounted for, from the date of transfer, in accordance with the policies applicable to the class of assets to which the property was transferred.

Property, plant and equipment

Property, plant and equipment are tangible assets that are held for use in the production or supply of goods or services or for administrative purposes and are expected to be used for more than one year.

Items of property, plant and equipment are initially recognised at cost. The cost of an item of property, plant and equipment comprises its purchase price and any other costs (including borrowing costs) directly attributable to its acquisition. After initial recognition, items of property, plant and equipment are carried at cost less any accumulated depreciation and any accumulated impairment losses.

If an item of property, plant and equipment consists of significant parts that have different useful lives, the parts are accounted for separately and assigned depreciation rates that correspond to their useful lives.

Subsequent costs related to an item of property, plant and equipment, such as the costs of replacing part of it, are recognised in the carrying amount of the item if it is probable that future economic benefits associated with the costs will flow to the Group and the costs can be measured reliably. The carrying amount of a part that is replaced is derecognised. All other subsequent costs are recognised as an expense as incurred.

Items of property, plant and equipment are depreciated using the straight-line method. Each asset is assigned a depreciation rate that corresponds to its useful life. The following useful lives are applied:

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Asset class	Useful life in years	Asset class	Useful life in years
Land	Not depreciated	Vehicles	5-7
Buildings and structures	33	Other equipment, fixtures and fittings	3-10
Plant and equipment	3-12		

Items of property, plant and equipment are depreciated until their carrying amount is equal to their residual value. The residual value of an asset is the amount that the Group would currently obtain from the disposal of the asset, if the asset were already of the age and in the condition expected at the end of its useful life.

The depreciation methods, depreciation rates and residual values of property, plant and equipment are reviewed at least at each financial year-end and if expectations differ from previous estimates the changes are recognised prospectively.

The Group assesses whether the carrying amount of an item of property, plant and equipment is impaired when there is any indication that the recoverable amount of the item may have decreased below its carrying amount. Further information on assessing impairment is presented in the policy *Impairment of assets*.

The carrying amount of an item of property, plant and equipment is derecognised when the item is disposed of or when no future economic benefits are expected from its use or disposal. Gains and losses arising from derecognition of items of property, plant and equipment are recognised in other operating income and other operating expenses respectively in the period in which the item is derecognised.

When it is highly probable that an item of property, plant and equipment will be sold within the next twelve months, the item is classified as held for sale. Non-current assets held for sale are presented in the statement of financial position separately from non-current assets (within current assets) and their depreciation is discontinued. A non-current asset held for sale is measured at the lower of its carrying amount and fair value less costs to sell.

Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are recognised as part of the cost of that asset. Borrowing costs that are directly attributable are those borrowing costs that would have been avoided if expenditure on the qualifying asset had not been made. If funds are borrowed specifically for the purpose of obtaining a qualifying asset, the Group determines the amount of borrowing costs eligible for capitalisation as the actual borrowing costs incurred on the loan during the period less any investment income on the temporary investment of the borrowed amounts. Other borrowing costs are recognised in profit or loss in the period in which they are incurred using the effective interest rate method.

Intangible assets

An intangible asset acquired from a non-Group party is measured initially at cost. After initial recognition, an intangible asset is carried at cost less any accumulated amortisation and any accumulated impairment losses. Intangible assets are recognised and accounted for similarly to items of property, plant and equipment, unless described otherwise in these accounting policies.

Intangible assets are classified into assets with a finite useful life and assets with an indefinite useful life. Assets with finite useful lives are amortised over their estimated useful lives using the straight-line method.

Asset class	Useful life in years
Licences and patents	3-5
Trademarks	5

Intangible assets with indefinite useful lives are not amortised. The useful life of an intangible asset that is not amortised is reviewed at each financial year-end to determine whether events and circumstances continue to support an indefinite useful life assessment for that asset. If the indefinite useful life has become finite, amortisation of the asset will commence and the change is recognised prospectively.

Intangible assets with indefinite useful lives are tested for impairment individually or as part of a cash-generating unit. Intangible assets with finite useful lives are tested for impairment whenever there is any indication that they may be impaired. When the carrying amount of an intangible asset exceeds its recoverable amount, the asset is written down to its recoverable amount. Impairment losses are recognised similarly to amortisation expenses in profit or loss.

Further information on the assessment of impairment is provided in the policy *Impairment of assets*.

Goodwill

Goodwill acquired in a business combination is measured initially at cost. Acquisition of goodwill is described in the policy *Basis of consolidation*.

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After initial recognition, goodwill is measured at cost less any accumulated impairment losses. The goodwill allocated to equity-accounted investees is included in the cost of the investees.

Impairment testing is described in the policy *Impairment of assets*.

Research and development expenditures

Research expenditures include expenditures incurred in investigation and research activities undertaken with the prospect of gaining new scientific or technical knowledge or gathering relevant information. Research expenditures are related to the creation of a scientific or technical basis for the development of new products or services and they are recognised as an expense as incurred.

Development expenditures include expenditures incurred in the application of research findings on the development, design or testing of specific new products, services, processes or systems. Development expenditure is capitalised and recognised as an intangible asset if the expenditure can be measured reliably, the Group has technical and financial resources and a positive intention to complete the development of the asset, the Group can use or sell the asset and the probable future economic benefits generated by the asset can be measured.

Capitalised development expenditures are carried at cost less any accumulated amortisation and any accumulated impairment losses. Development expenditure is recognised as an expense on a straight-line basis over its estimated useful life that generally does not exceed five years. Amortisation commences when the Group has started the business activity that was expected to result from the development project.

Impairment of assets

Measurement of fair value is described in note 5.

Impairment of financial assets

The carrying amount of a financial asset that is not a financial asset at fair value through profit or loss is assessed for impairment at least at the end of each reporting period to determine whether or not circumstances exist that may indicate impairment. A financial asset is impaired if an event has occurred after the initial recognition of the asset, that event has had a negative effect on the estimated future cash flows of the asset, and the effect can be estimated reliably.

The recoverable amount of a financial asset is the present value of its estimated future cash flows discounted at the asset's original effective interest rate.

Financial assets measured at amortised cost

An impairment loss on loans and receivables and held-to-maturity investments measured at amortised cost is recognised when the carrying amount of the asset exceeds its recoverable amount. Write-downs of loans and receivables are recognised in the statement of financial position in the *Impairment allowance* set up for receivables and the impairment loss incurred is recognised in profit or loss within *Other operating expenses.* When an item is assessed to be uncollectible, it is written off the statement of financial position by reducing both *Trade receivables* and the *Impairment allowance*. Recognition of interest income on an asset that has been written down continues. When a financial asset for which an impairment loss has been recognised is recovered or another event occurs that reverses the impairment loss that has been recognised, the reversal is recognised in profit or loss by reducing the line item where the impairment loss was originally recognised.

Financial assets that are individually significant are assessed for impairment individually. If a receivable is 180 days or more past due, the receivable is considered doubtful (impaired) and recognised as an expense unless the recoverability of the item is supported by an additional agreement or the debtor has provided sufficient collateral. If impairment of an asset becomes obvious sooner, an impairment loss is recognised earlier. Assets that are not individually significant are assessed for impairment collectively, in groups of items with similar risk characteristics.

Available-for-sale financial assets

When an available-for-sale financial asset becomes impaired, the difference between the cost of the financial asset (net of any principal repayments and amortisation) and its current fair value (less any previously recognised impairment loss previously recognised in finance costs) is reclassified from equity to profit or loss (finance costs).

A subsequent increase in the fair value of a debt instrument is recognised in profit or loss as a reduction of the originally recognised impairment loss. A subsequent increase in the fair value of an equity instrument is recognised in other comprehensive income or expense.

Impairment of non-financial assets

The carrying amounts of the Group's non-financial assets other than investment property, inventories and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. An impairment loss is recognised if the carrying amount of an asset exceeds its recoverable amount. The recoverable amount of an asset or its cash-generating unit (CGU) is the higher of its fair value less costs to sell and the present value of its expected future cash flows (value in use). Value is use is calculated by estimating the future cash flows expected to be derived from the asset and by applying to those cash flows an appropriate pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped into the smallest group of assets that generates cash inflows that are largely independent of the cash inflows of other assets or asset groups (a CGU). Where necessary, the fair value of an asset is determined with the assistance of independent experts. Impairment losses on assets including impairment losses on CGUs are recognised in profit or loss. An impairment loss for a CGU is recognised by first reducing the carrying amount of any goodwill allocated to the CGU and then the carrying amounts of other assets of the unit on a pro rata basis.

Goodwill is tested for impairment at least at each financial year-end and whenever events or changes in estimates indicate that goodwill may be impaired. Impairment is determined by estimating the recoverable amount of the CGU to which goodwill has been allocated. For the purpose of impairment testing, goodwill is allocated to the CGUs or groups of CGUs that are expected to benefit from the synergies of a business combination. Impairment losses on goodwill are recognised in profit or loss.

The Group assesses at least at each reporting date whether there is any indication that an impairment loss recognised in prior periods no longer exists or may have decreased. If such indication exists, the impairment loss is reversed. The increased carrying amount of an asset attributable to a reversal of an impairment loss cannot exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised. A reversal of an impairment loss is recognised in profit or loss (within the same item where the original impairment loss was recognised). As an exception, impairment losses on goodwill are not reversed.

Provisions and contingent liabilities

A provision is recognised in the statement of financial position when the Group has a legal or constructive obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Long-term provisions are recognised at their present value by applying a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the obligation. The increase in a provision arising from the decrease in the discount period (unwinding of the discount) is recognised in profit or loss. Provisions are carried at their discounted present value if the effect of discounting is material.

A warranty provision is recognised when the construction service has been delivered and a warranty obligation has been incurred under a construction contract. The amount recognised as a provision is estimated based on the Group's historical experience of the expenditure required to settle warranty obligations. Warranty provisions are reviewed at least annually.

Provisions for restoring associates' negative equity are recognised when the Group has a relevant legal obligation or a binding commitment under an agreement with other investors.

Provisions for meeting site rehabilitation commitments following the completion of extraction operations are recognised when the Group incurs a binding commitment to make relevant outlays or do relevant work. The provision for expected expenditure is recognised by reference to the ratio of the quantity of raw material actually extracted to the quantity of raw material allowed to be extracted under the extraction permit or planned to be extracted by the Group. The amounts of rehabilitation provisions, quantities to be extracted and associated ratios are reassessed at least annually.

Promises, guarantees and other commitments that may transform into obligations under certain circumstances (that do not yet exist and are not within the control of the Group) are disclosed in the notes to the financial statements as contingent liabilities.

Contingent liabilities also include present obligations that arise from past events whose realisation probability, according to management's estimates, is remote and/or which cannot be measured reliably, and obligations whose existence will only be confirmed by the occurrence of some future event.

Short-term employee benefits

Short-term employee benefits (wages and salaries payable and vacation pay liabilities) are measured on an undiscounted basis and recognised as an expense on an accrual basis as the related service is provided. Salary, wage and vacation pay liabilities are recognised on the basis of contracts signed with employees and employment laws and regulations that impose on the Group a legal obligation to make the payments.

Termination benefits are paid to an employee when the Group terminates the employee's employment before the normal retirement date or the employee accepts voluntary redundancy in exchange for those benefits. The liability arises, first and foremost, as a result of the termination of an employment relationship. Therefore, the Group recognises termination benefits only when it is demonstrably committed to terminate the employment of an employee or a group of employees before the normal retirement date, or to provide termination benefits as a result of an offer made in order to encourage voluntary redundancy. Where termination benefits fall due more than twelve months after the reporting date, they are discounted to their present value.

Liabilities under profit-sharing and bonus plans result from employee service and not from transactions with the company's owners. Therefore, the cost of profit-sharing and bonus plans is recognised not as a profit distribution but as an expense. Such short-term liabilities are not discounted.

Profit-sharing and incentive payments to be made under profit-sharing and incentive plans are calculated and recognised as an expense and a liability based on formulas approved by the Group's board or council. The Group recognises the expected cost of profit-sharing and incentive payments (performance-related pay) only when it has a present legal or constructive obligation to make such payments and a reliable estimate can be made of the amount of the obligation.

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 at the vesting date of the equity instruments. 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 specific 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.

Derivatives

The Group uses derivative financial instruments (interest rate swaps) to manage the risks arising from changes in interest rates. When a derivative financial instrument is recognised initially, it is measured at its fair value at the date the Group entered into the contract. After initial recognition, the derivative financial instrument is measured to fair value at the end of each reporting period. Any change in fair value is recognised in profit or loss. When the fair value of a derivative financial instrument is positive, the instrument is recognised as an asset. When the fair value of a derivative financial instrument is negative, it is recognised as a liability. A derivative financial instrument is classified as current when it is probable that it will be realised or settled in the next twelve months. In all other cases, a derivative financial instrument is classified as non-current. The fair value of derivative financial instruments is measured based on information provided by credit institutions.

A gain or loss on a change in the fair value of a derivative financial instrument is recognised in profit or loss. A gain on loss the sale of a derivative financial instrument is also recognised in profit or loss.

Leases

A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset to the lessee. Title may or may not be eventually transferred.

As a lessee, the Group recognises assets leased under finance leases in the statement of financial position and measures them at the lower of fair value and the present value of the minimum lease payments. Assets leased under finance leases are depreciated similarly to owned assets.

If it is not certain that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of its lease term and useful life. Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

An operating lease is a lease other than a finance lease. In the case of operating leases, the leased assets are carried in the statement of financial position of the lessor. Operating lease payments received and made are recognised as income and expenses respectively on a straight-line basis over the lease term.

Statutory capital reserve

In accordance with the Estonian Commercial Code, the statutory capital reserve has to amount to at least 10% of share capital. Accordingly, every year the parent company transfers at least 5% of net profit to the statutory capital reserve. The transfers have to be made until the required level is achieved.

The statutory capital reserve may not be distributed as dividends but it may be used for covering accumulated losses if the latter cannot be covered with unrestricted equity. The capital reserve may also be used for increasing share capital by means of a bonus issue. The Group's capital reserve includes the subsidiaries' capital reserves, which have been created by the subsidiaries at the time when the parent has had control over them.

Earnings per share

Basic earnings per share are calculated by dividing the net profit for the period attributable to owners of the parent by the weighted average number of ordinary shares outstanding during the period. Diluted earnings per share are calculated by dividing the net profit for the period 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. The weighted average number of ordinary shares outstanding during the period is adjusted for the effects of any bonus issues and earnings per share for all periods presented are calculated on the same basis.

Income tax

Income tax assets and liabilities and income tax income and expense comprise current and deferred items. Current tax (recoverable or payable) related to taxable profit or the distribution of dividends is recognised as a current asset or a current liability and the associated income or expense is recognised in profit or loss as it arises.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is recognised as a non-current asset or liability.

Parent company and subsidiaries, associates and joint ventures registered in Estonia

Under the Estonian Income Tax Act, corporate income tax is not levied on profit earned but on profit distributions. In 2016, the income tax rate was 20% (2015: 20%) and the amount of tax payable on a dividend distribution was calculated as 20/80 (2015: 20/80) of the amount of the net distribution. The income tax payable on dividends is recognised in profit or loss in the period in which the dividends are declared.

Because of the specific nature of the taxation system, companies registered in Estonia do not acquire deferred tax assets or incur deferred tax liabilities. The maximum income tax liability that would arise if all of the unrestricted equity were distributed as dividends is disclosed in note 33 to the consolidated financial statements.

Foreign subsidiaries, associates and joint ventures

In Ukraine, Finland, Sweden and Lithuania corporate profits are subject to income tax. In 2016, the income tax rates were as follows: Ukraine 18% (2015: 19%), Finland 20% (2015: 20%), Sweden 22% (2015: 22%) and Lithuania 15% (2015: 15%). Taxable profit is calculated by adjusting profit before tax for permanent and temporary differences between the carrying amounts and tax bases of assets and liabilities as permitted by the local tax laws.

In the case of foreign subsidiaries, deferred tax assets and liabilities are recognised for all temporary differences at the reporting date between the carrying amounts and tax bases of assets and liabilities. A deferred tax asset is recognised in the statement of financial position only when it is probable that in the foreseeable future the entity will incur an income tax liability of a comparable amount against which the deferred tax asset can be utilised.

Segment reporting

An operating segment is a component of the Group that engages in business activity and whose financial performance comprises items that are directly attributable to it (including revenue and profit on transactions with the Group's other operating segments).

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The financial performance of a segment may also include items that are allocated to segments on a reasonable basis. Financial items that cannot be allocated relate to the parent company's administrative activities or do not have a reasonable basis for allocation.

Reportable operating segments are identified on the basis of how the internally generated financial information is used by the Group's chief operating decision maker. The chief operating decision maker is the group of persons that allocates resources to and assesses the performance of operating segments. The Group's chief operating decision maker is the board of the parent company, Nordecon AS.

Revenue

Revenue is measured at the fair value of the consideration received or receivable taking into account the amount of any trade discounts and volume rebates allowed and any returns. Revenue is recognised only to the extent that it is probable that economic benefits associated with the transaction will flow to the Group and the amount of the revenue can be measured reliably.

Revenue from construction contracts

Construction contract revenue and construction contract costs are recognised as revenue and expenses respectively when they can be measured reliably using the stage of completion method. Contract revenue comprises the initial amount of revenue agreed in the contract and variations in contract work and claims and incentive payments to the extent that it is probable that they will result in revenue and are capable of being measured reliably.

The stage of completion of a contract is determined based on surveys of work performed, using, where necessary, as additional information the proportion that contract costs incurred for work performed bear to the estimated total contract costs. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately (see also the policy *Construction contracts in progress*).

Revenue from rendering of other services

Revenue from rendering of other services is recognised by reference to the stage of completion of the service at the reporting date (see also the policy *Construction contracts in progress*).

Revenue from sale of goods purchased and finished goods

Revenue from the sale of goods purchased and finished goods is recognised when the significant risks and rewards of ownership of the goods have been transferred to the buyer, it is probable that economic benefits associated with the transaction will flow to the Group, the costs incurred or to be incurred in respect of the transaction including potential returns can be measured reliably, the Group retains no continuing involvement with the goods, and the amount of the revenue can be measured reliably.

Transfer of the risks and rewards of ownership from the seller to the buyer depends, above all, on the nature of the transaction and the terms of the contract. Upon sale of goods , transfer generally occurs when the goods are physically delivered to the buyer. The transfer of real estate completed by the Group through development or acquired by the Group for development is generally fixed in a notarised real right contract. Amounts received from customers before the conclusion of the contract are recognised as deferred income.

Finance income

Interest income is recognised as it accrues using the effective interest rate method. Dividend income is recognised when the right to receive payment is established.

Construction contracts in progress

The revenues and costs of a construction contract in progress are recognised using the stage of completion method. The stage of completion of a contract is determined based on surveys of work performed, using, where necessary, as additional information the proportion that contract costs incurred for work performed bear to the estimated total contract costs. Construction contract costs comprise costs that relate directly to a specific contract and costs that are attributable to contract activity in general (overheads).

If at the reporting date progress billings exceed the revenue recognised using the stage of completion method, the difference is recognised in the statement of financial position as a current liability (in *Deferred income*). If the revenue recognised using the stage of completion method exceeds progress billings, the difference is recognised in the statement of financial position as a current asset (in *Trade and other receivables*).

When the outcome of a construction contract cannot be estimated reliably, revenue is recognised only to the extent of contract costs incurred. When it is probable that total contract costs will exceed total contract revenue, the entire expected loss is recognised immediately in profit or loss for the period.

Investments in subsidiaries, associates and joint ventures in the parent company's primary financial statements, the disclosure of which is required by the Estonian Accounting Act

The parent company's primary financial statements are presented in the notes as supplementary information required by the Estonian Accounting Act. The parent company does not prepare additional separate financial statements as defined in IAS 27.

In the parent company's primary financial statements, investments in subsidiaries, associates and joint ventures are accounted for using the cost method. Under the latter, an investment is initially recognised at cost, i.e., at the fair value of the consideration paid for it upon acquisition. After initial recognition, investments in subsidiaries, associates and joint ventures are carried at cost less any impairment losses.

When there is any indication that an investment may be impaired or at least at each financial year-end, investments are tested for impairment by estimating their recoverable amount (see the policy *Impairment of assets*). Impairment losses are recognised in profit or loss.

Dividends distributed by subsidiaries, associates and joint ventures are recognised in profit or loss when the right to receive payment is established. Dividends distributed from this portion of a subsidiary's, associate's or joint venture's equity which accumulated before the date of acquisition are not recognised as income. Instead, they are accounted for as a reduction of the investment.

NOTE 4. New standards, amendments and interpretations

New and amended standards and interpretations effective for the reporting period

The following new standards, amendments, and interpretations as adopted by the European Union which became effective for annual periods beginning on 1 January 2016 had an impact on the Group's financial statements:

- Amendments to IFRS 11 – *Accounting for Acquisitions of Interests in Joint Operations*. These amendments require business combination accounting to be applied to acquisitions of interests in a joint operation that constitutes a business.

In the reporting period, the Group did not acquire any interests in joint operations.

The initial application of the following new standards, amendments, and interpretations as adopted by the European Union that became effective for annual periods beginning on 1 January 2016 had no significant impact on the Group's financial statements:

- Amendments to IAS 1 – *Disclosure Initiative*. The amendments include the following five, narrow-focus improvements to the disclosure requirements contained in the standard. The guidance on materiality in IAS 1 has been amended to clarify that:
    - Immaterial information can detract from useful information.
    - Materiality applies to the whole of the financial statements.
    - Materiality applies to each disclosure requirement in an IFRS.

The guidance on the order of the notes (including the accounting policies) has been amended to:

- Remove language from IAS 1 that has been interpreted as prescribing the order of notes to the financial statements.
- Clarify that entities have flexibility about where they disclose accounting policies in the financial statements.

Amendments, which according to the Group's assessment had no impact on its financial statements:

- Amendments to IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets – Clarification of Acceptable Methods of Depreciation and Amortisation.*
- Amendments to IAS 16 *Property Plant and Equipment* and IAS 41 *Agriculture.*
- Amendments to IAS 19 – *Defined Benefit Plans: Employee Contributions.*
- Amendments to IAS 27 – *Equity Method in the Separate Financial Statements.*

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New and amended standards and interpretations as at 31 December 2016

As at 31 December 2016, some new International Financial Reporting Standards, amendments to standards and interpretations had been published and adopted by the EU which were not yet effective for the reporting period and were therefore not applied in preparing these consolidated financial statements.

The following new standards and amendments may have an impact on the Group's financial statements:

- IFRS 15 *Revenue from Contracts with Customers* and its amendments *Effective Date of IFRS 15* (Effective for annual periods beginning on or after 1 January 2018). The new standard introduces the core principle that revenue must be recognised when the goods or services are transferred to the customer, at the transaction price. Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognised if they are not at significant risk of reversal. The costs incurred to secure contracts with customers have to be capitalised and amortised over the period when the benefits of the contract are consumed.

  Management has not yet completed its initial assessment of the impact of IFRS 15 but as a construction group and a real estate developer the Group expects that the timing and measurement of revenue will change. According to the Group's assessment, on the initial application of IFRS 15 revenue will be recognised later but the Group has not yet quantified the expected impact of the initial application of the standard. The Group intends to apply IFRS 15 as from 1 January 2018 and to apply the cumulative impact approach on the initial application of the new standard.

- IFRS 9 *Financial Instruments* (2014) (Effective for annual periods beginning on or after 1 January 2018.). The impairment model in IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' model, which means that a loss event will no longer need to occur before an impairment allowance is recognised.

  The Group does not expect IFRS 9 (2014) to have a significant impact on its financial statements. The classification and measurement of the Group's financial instruments are not expected to change under IFRS 9 because of the nature of the Group's operations and the types of financial instruments that it holds. However, the Group believes that impairment losses are likely to increase and become more volatile for assets in the scope of the expected credit loss model. The Group has not yet finalised the impairment methodologies that it will apply under IFRS 9.

According to management's assessment, the following amendments will probably have no significant impact on the Group's financial statements:

Amendments to IFRS 10 and IAS 28: *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* (The effective date has not yet been determined but earlier adoption is permitted.). The amendments clarify that in a transaction involving an associate or joint venture the extent of gain or loss recognition depends on whether the assets sold or contributed constitute a business.

New standards, amendments and interpretations published by 31 December 2016 but not yet adopted by the EU

- IFRS 16 *Leases* (Effective for annual periods beginning on or after 1 January 2019. Earlier application is permitted if the entity also applies IFRS 15.). The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognise: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the income statement. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

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The Group expects that the initial application of the new standard will have a significant impact on its financial statements because the assets and liabilities related to operating leases under which the Group is a lessee will have to be recognised in the statement of financial position. The Group has not yet prepared an analysis of the quantitative impact of the new standard.

- Amendments to IFRS 2: *Classification and Measurement of Share-based Payment Transactions* (Effective for annual periods beginning on or after 1 January 2018; to be applied prospectively. Early application is permitted). The amendments clarify share-based payment accounting in the following areas:
  - the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments;
  - share-based payment transactions with a net settlement feature for withholding tax obligations; and
  - a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity settled.

  The Group is analysing the impact of the amendments on its financial statements.
- Amendments to IAS 7 – *Disclosure Initiative* (Effective for annual periods beginning on or after 1 January 2017.). The amendments to IAS 7 require disclosure of changes in liabilities from financing activities between the opening and closing balances.

  The standard may have an impact on the disclosure of information in the Group's financial statements.
- Amendments to IAS 40 *Transfers of Investment Property* (Effective for annual periods beginning on or after 1 January 2018.). The amendments clarify the principle for transfers into, or out of, investment property in IAS 40 *Investment Property* according to which a transfer should only be made when there has been a change in use of the property. Based on the amendments a transfer is made when there is an actual change in use – i.e. an asset meets or ceases to meet the definition of investment property and there is evidence of the change in use. A change in management's intention alone does not support a transfer.

  The Group does not expect the amendments to have a significant impact on its financial statements.

Other new or revised standards or interpretations not yet adopted by the EU are not expected to have a significant impact on the Group's financial statements.

Annual Improvements to IFRS

Annual improvements to IFRSs 2014-2016 cycle issued on 8 December 2016 introduce two amendments to two standards and consequential amendments to other standards and interpretations that result in accounting changes for presentation, recognition or measurement purposes. The amendments to IFRS 12 *Disclosure of Interests in Other Entities* are effective for annual periods beginning on or after 1 January 2017 and amendments to IAS 28 *Investments in Associates and Joint Ventures* are effective for annual periods beginning on or after 1 January 2018; to be applied retrospectively. Earlier application is permitted.

None of these amendments are expected to have a significant impact on the Group's financial statements.

NOTE 5. Financial risk management

Use of financial instruments exposes the Group to the following risks:

- Credit risk
- Liquidity risk
- Market risk

The Group's risk management process is based on the premise that effective risk management is underpinned by continuous identification and accurate assessment of the potential impacts of the risks faced by the Group as well as adherence to the risk management policies in place. The main objective of relevant activities is to prevent and manage risks which could have an adverse impact on the adequacy of working capital required for carrying out the Group's core business and which could jeopardise the Group's compliance with the conditions imposed by providers of debt capital, adequacy of the Group's equity and the Group's ability to continue as a going concern.

The Group establishes risk management policies and implements action plans aimed at identifying and analysing risks, monitoring risk levels and dispersing risks across time, activities and geographical areas.

In financial risk management, the key role is played by the finance and accounting department of Nordecon AS that is responsible for risk assessment and designing and implementing risk assessment and management action plans. As a rule, the risk management policies established by Nordecon AS also apply to the subsidiaries. Ultimate responsibility for risk management rests with the boards of Group entities. Depending on internal work arrangement, risk management may also be the responsibility of an entity's council or an audit committee formed by the council.

Credit risk

Credit risk is the risk that the counterparty to a financial instrument will cause a financial loss for the Group by failing to discharge an obligation and thus the Group will not receive the cash flows to which it is entitled. The Group's main sources of credit risk are trade receivables and loans provided.

The factors, which have the strongest impact on the Group's credit risk exposure, are the specific circumstances of each customer. In addition, the Group's management considers more general features such as the customer's legal status (private or state-owned entity), geographical location, industry, and the economic situation in the country involved as these factors may also influence the Group's exposure to credit risk. Based on the Group's experience, private sector customers have the highest credit risk while the credit risk of government institutions and local governments is the lowest. The latter assessment is confirmed by the fact that there has been practically no need to write down receivables from public sector customers, mostly thanks to their stable solvency. Although in recent years revenue from public projects has gradually decreased, in 2016 it was still significant, accounting for around 32% of the Group's revenue (2015: around 30%). The largest public sector customers were the Ministry of Defence and the Estonian Road Administration whose contracts accounted for around 13% and 8% of the Group's revenue respectively (2015: 7% and 19%).

Credit risk management involves both preventive activities (analysis of counterparties' creditworthiness) and limitation of the concentration and accumulation of risks. Group entities perform transactions only with counterparties that have been considered creditworthy by management. In the case of customers with whom the Group has prior experience, credit risk is mainly assessed based on the customer's past settlement behaviour as well as current monitoring. In the case of high-risk counterparties, services are rendered and goods are sold on a prepayment basis only.

The Group does not demand security (e.g., payment guarantees issued by banks) for trade receivables unless the recoverability of a receivable is in doubt. However, the loans provided to non-Group parties have to be secured with mortgages, surety bonds or third-party guarantees.

When a credit loss is anticipated, the receivable or loan involved is written down. Impairment losses are recognised based on probable credit losses expected from specific counterparties. In line with the Group's accounting policies, all receivables that are more than 180 days past due and do not have an additional settlement agreement or collateral are recognised as an expense.

Further information on the Group's credit risk exposure is provided in note 32.

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting its liabilities to suppliers and financial institutions that have to be settled by delivering cash or another financial asset. The Group's liquidity is influenced, first and foremost, by the following factors:

- The Group's business is seasonal in nature, particularly in the infrastructure segment. In the first quarter, business volumes and profit margins are the lowest and the Group needs to use the cash buffers accumulated in previous periods to cover operating and administrative expenses. In the second and third quarters, growth in operations triggers the need for additional working capital.
- Due to the settlement terms prevailing in the construction market, the average settlement terms for the Group's receivables (cash receipts) are longer than the settlement terms for the Group's payables (cash payments). The Group must also make prepayments to subcontractors and materials suppliers while customers are generally not required to make advance payments. The Group has to cover the deficit in working capital, which arises from the mismatch between cash receipts and payments and prepayments, with own funds or using the credit lines provided by financing institutions.

- To ensure efficient performance of its operating activities, the Group needs to invest in plant and equipment and real estate.

Short-term liquidity management is based on Group entities' approved annual budgets and investment plans. The main tools for short-term liquidity management are cash pooling arrangements (cash pool accounts), which combine the Group's monetary resources and help mitigate seasonal fluctuations in Group entities' liquidity. Additional short-term financing needs are satisfied with overdraft and factoring facilities provided by banks.

Long-term liquidity management is primarily influenced by investment decisions. In making investment decisions, the Group endeavours to avoid open positions (i.e., situations where the payback period of an investment exceeds the duration of financing raised).

Free funds that are not part of working capital are invested in highly liquid interest-bearing money market instruments issued by banks or placed in term deposits with short maturities (up to 3 months).

The Group's liquidity position in 2017

At the reporting date, the Group's current assets and current liabilities amounted to 55,477 thousand euros and 46,378 thousand euros respectively, current ratio was 1.20 (31 December 2015: 49,037 thousand euros and 47,786 thousand euros respectively, current ratio: 1.03). Current liabilities include loan liabilities of 6,297 thousand euros (31 December 2015: 15,715 thousand euros). Based on its financing plan for 2017, the Group believes that in 2017 loan liabilities of 3,591 thousand euros, which at the reporting date were classified as current, can be refinanced and that 1,850 thousand euros of this amount can be refinanced for a period exceeding twelve months. By the date of release of this report, banks have approved refinancing agreements on 3,489 thousand euros. During and at the end of the reporting period, the Group was in compliance with all loan covenants related to its financial position.

After adjustment for the above amounts, current assets and current liabilities would amount to 55,477 thousand euros and 42,787 thousand euros respectively (current ratio would be 1.30).

In the light of the above, the Group's management is confident that in 2017 the Group's liquidity position will be adequate to allow the Group to continue sustainable and profitable operating activities and to settle its liabilities to counterparties on a timely basis.

Further information on the Group's liquidity is provided in note 32.

Market risk

Market risk is the risk that changes in market prices such as changes in foreign exchange rates, interest rates and values of securities will affect the Group's financial performance or the value of its financial instruments.

Currency risk

Currency risk is exposure to losses arising from unfavourable movements in foreign exchange rates that may cause a decline in the value of the Group's financial instruments that are denominated in currencies other than the Group entities' functional currencies.

The Ukrainian national currency, the hryvnia (UAH), floats against other currencies. The Ukrainian Group entities' currency risk exposure arises from financial instruments that are denominated in currencies other than the hryvnia, for example, US dollar- or euro-based loan and lease liabilities. The hryvnia has been weakening because the political and economic environment in Ukraine continues to be complicated due to the conflict between Ukraine and Russia which broke out at the beginning of 2014 and at the beginning of 2015 the National Bank of Ukraine decided to discontinue determination of the national currency's indicative exchange rate. In 2016, the hryvnia weakened against the euro by around 8%. For the Group's Ukrainian subsidiaries, this meant additional foreign exchange losses on the translation of their euro-denominated loan commitments into the local currency. Relevant exchange losses totalled 195 thousand euros (2015: 574 thousand euros). Exchange gains and losses on financial instruments have been recognised in *Finance income* and *Finance costs* respectively. Translation of receivables and liabilities from operating activities did not give rise to any exchange gains or 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 accounts. At the reporting date, the Group's non-Ukrainian entities had no financial instruments denominated in hryvnias.

From the beginning of 2017 until the date of release of this report, the Ukrainian hryvnia has remained relatively stable against the euro.

The Swedish krona (SEK) has a floating exchange rate. During the reporting period, the Swedish krona weakened against the euro by around 4%. In 2016, translation of receivables and payables related to the Group's operating activity due to the movement of the Swedish krona against the euro gave rise to an exchange gain of 18 thousand euros (2015: nil euros). The exchange gain has been recognised in other operating income.

The Group's Swedish subsidiary has no financial instruments denominated in a currency other than the Swedish krona. At the year-end, the Group's other subsidiaries did not have any financial instruments denominated in Swedish kronas.

The Group has not acquired derivative financial instruments to hedge its currency risk.

Interest rate risk

The main source of the Group's interest rate risk is the possibility of a rise in the base rate of floating interest rates (EURIBOR, EONIA or the creditor's own base rate). In the light of the Group's relatively heavy loan burden this would cause a significant increase in interest expense, which would have an adverse impact on the Group's profit. The Group mitigates 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 has entered into a derivative contract to manage the risks related to the interest rates of a finance lease contract signed in the reporting period for the acquisition of an asphalt concrete plant.

Further information on the Group's market risk exposures is provided in note 32.

Country risk

At the reporting date, the Group was active in the following foreign markets: Sweden, Ukraine and Finland. Revenues generated in Sweden, Ukraine and Finland accounted for 4%, 2% and 1% of the Group's total revenue respectively (2015: Sweden 0%, Ukraine 3% and Finland 1%). At the year-end, assets located in Sweden, Ukraine and Finland accounted for 1.5%, 0.6% and 0.9% of the Group's total assets respectively (2015: Sweden 0.7%, Ukraine 0.2% and Finland 0.8%).

The conflict between Ukraine and Russia that broke out at the beginning of 2014 continued to influence the political and economic environment in Ukraine also in 2016. Due to economic uncertainty, the Ukrainian hryvnia continued to weaken against the euro. However, compared with the year before the weakening of the hryvnia slowed. In 2016, adverse movements in the exchange rate caused the Group an exchange loss of around 195 thousand euros. In recent years, the Group's bidding activities in Ukraine have been intentionally conservative, with work undertaken in the capital Kiev and the surrounding area only. The ongoing military conflict, around 700 km away in eastern Ukraine, has not had a direct impact on the Group's operations, mostly because the Group right-sized the workforce during earlier periods of recession already and has accepted only such contracts where the risks have been reasonable under the circumstances. The situation in the Kiev region has stabilised, considering the backdrop, and companies have adapted to the new environment. In 2016, the Group's business volumes in Ukraine were comparable to the year before.

Real estate development activities which require major investment remain suspended to minimise the risks until the situation improves (we have currently stakes in two development projects that have been put on hold). To safeguard their investments and secure their loans, the Group and the co-owners have privatised and created mortgages on the plots owned by the associate V.I. Center TOV.

The deterioration in the political and economic environment, caused by the conflict between Ukraine and Russia, has increased the country risk of Ukraine. The above developments have had, to a greater or lesser extent, an adverse impact on the Ukrainian construction and real estate markets as well as the value of financial instruments related to Ukraine. For the Group, the negative effect is softened by the fact that its Ukrainian business operations are concentrated in and around Kiev.

Taking into account the above factors, management is of the opinion that the Group's financial instruments that are related to Ukraine carry increased risk and the probability that their value may decrease is above average.

Determination of fair value

According to management's assessment, the carrying amounts of the Group's financial assets and liabilities do not differ significantly from their fair values. The Group categorises financial instruments into three levels based on the inputs of their valuation techniques:

- Level 1: Financial instruments measured based on prices quoted on a stock exchange or another active regulated market (unadjusted). A market is active if quoted prices are readily and regularly available from a stock exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring transactions on an arm's length basis.

- Level 2: Financial instruments measured using valuation techniques that use observable inputs. For example, financial instruments which are measured based on quoted prices for similar instruments in an active regulated market or financial instruments which are measured based on quoted prices in regulated markets but whose market liquidity is low. In applying a fair value measurement technique, the Group maximises the use of observable inputs, if those are available, and minimises the use of its own estimates. An instrument is categorised to level 2 when all significant valuation inputs are observable. If one or several of significant inputs are not based on observable market data, the instrument is categorised into level 3.
- Level 3: Financial instruments which are measured using valuation techniques that use unobservable inputs.

In accordance with the Group's accounting policies and the IFRS EU disclosure requirements, the Group has to disclose estimates of the fair values of its financial instruments and investment properties. Fair values have been determined as described below:

Financial instruments

Group entities' financial instruments are recognised in the statement of financial position and the Group does not have any significant financial instruments that are accounted for off the statement of financial position.

For disclosure purposes, fair values are determined as follows:

- Trade and other receivables – the fair value assessment for trade and other receivables (except for receivables related to construction contracts in progress) is based on the present value of their future cash flows discounted at the market interest rate at the reporting date. Non-current fixed-interest financial assets are discounted by applying the average market interest rate at the reporting date.
- Long-term financial assets – the fair value assessment for long-term financial assets is based on the present value of their discounted future net cash flow.
- Financial liabilities – the fair value assessment for financial liabilities is based on the discounted present value of the future principal and interest payments. The discount rate applied is the average market interest rate for similar liabilities at the reporting date as outlined in the statistics released by the Bank of Estonia.

A comparison of the fair values and carrying amounts of the Group's financial instruments is presented in note 32.

Investment property

Properties that have been classified as investment properties are measured at their fair values. Among other things, fair value is determined based on the expert opinions of independent certified real estate appraisers. Fair value is determined using the following methods:

- Discounted cash flow method – To calculate the value of a property's discounted cash flows, the appraiser forecasts the property's future rental income (including rental per square metre and the occupancy rate) and associated operating expenses. Depending on the terms of the existing lease (whether and how easily the lease can be terminated by the tenant), the appraiser will base the projections on either the property's existing cash flows or the market's current average cash flows for similar properties. The present value of the future net cash flow is found by applying a discount rate which best reflects the market's expectations of a rate of return appropriate for the asset and the risks specific to the asset.
- Sales comparison method – Under this method, the fair value of a property is determined by reference to the price per square metre agreed in transactions performed with similar properties in similar circumstances. This method is used to determine the value of properties that do not generate rental income but are held for resale or capital appreciation. As the transactions selected for comparison are practically never identical with the property being valued, their prices are adjusted to reflect differences in time, location, size and phase of the detailed design plan. Application of this method assumes that a sufficient number of arm's length transactions with similar properties are performed in the area in which the property is located around the time the valuation is performed (comparable transactions have to have occurred no more than a year before the valuation).

- Price in a contract under the law of obligations – The fair value of properties which at the reporting date have been sold by a contract under the law of obligations but whose real right contract[3] has not yet been signed is determined based on the sales price of the property in the contract under the law of obligations. The method is used for determining the fair value of a property only when the Group has reasonable assurance that the related real right contract will be concluded under the same terms and conditions (e.g., the buyer has made a substantial prepayment by the reporting date or the real right contract is concluded after the reporting date but before the date management authorises the financial statements for issue). The method is also used when a contract under the law of obligations is signed after the reporting date but the terms of the transactions have been agreed before the end of the reporting period and they have not changed significantly by the date of the transaction.

The Group applies the sales comparison method to investment properties that do not generate rental income, that are not being developed (e.g., there is no detailed design plan and/or business plan) or actively marketed, and in respect of which the Group has not received any purchase bids from third parties. The Group has four such properties, three of which are located in western Estonia, in or near the city of Pärnu, and one of which is located in the city of Tartu. The Group commissioned valuations of those properties from an independent real estate appraiser. In the Estonian real estate market (particularly in areas outside the capital Tallinn), the number of comparable transactions (transactions with properties without buildings) is still very small. Accordingly, the independent appraiser decided not to express an opinion on the value of the Group's investment properties based on the sales comparison method on the grounds that the information available in the market was insufficient for determining fair value as defined in the valuation and accounting standards.

Hence, the Group measured the fair values of its investment properties using the discounted cash flow method. The valuations were performed by the Group's real estate specialists with the assistance of independent experts. Based on the valuation results, there was no need to recognise a change in the fair value of investment properties. According to the Group's policy, the value of investment properties is not adjusted when the difference between the fair value calculated at the end of the reporting period and the carrying amount is less than 15%. The impact of possible changes in estimates on the value of the Group's investment properties is disclosed in note 13.

Capital management

The objective and responsibility of the Group's management is to maintain a strong capital base so as to maintain shareholder, creditor and market confidence and sustain development of the company.

The Group's gearing ratio has increased slightly compared with the prior year. The Group used operating cash flow to settle a larger amount of long-term financial liabilities than in the previous year and reduced use of factoring.

Gearing ratio is at a level where it does not influence the Group's capital management policies and does not require the Group to raise additional share capital. The ceiling of the gearing ratio is linked to the size of equity. Based on the statutory minimum equity requirements (see the next section), the gearing ratio as at the reporting date could have extended to 59% (2015: 61%) assuming all other variables remained constant.

EUR '000

As at 31 December	2016	2015
Total interest-bearing liabilities (note 16)	19,399	20,813
Cash and cash equivalents (note 8)	-9,786	-6,332
Net interest-bearing liabilities	9,613	14,481
Total equity	38,046	36,067
Invested capital (interest-bearing liabilities + equity)	57,445	56,880
Gearing ratio*	17%	25%

*Gearing ratio = net interest-bearing liabilities / invested capital

[3] Under Estonian law, the terms and conditions of the sale of real estate and the rights and obligations of the parties are agreed in a contract under the law of obligations. Title transfers when an entry is made in the Land Register, which is done on the basis of a real right contract. The contract under the law of obligations and the real right contract may be signed simultaneously and they may be drawn up as a single document. However, frequently a sales contract under the law of obligations is signed in the development or construction stage when the buyer makes a prepayment. The real right contract is signed when the real estate is complete.

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Minimum capital requirements

At the reporting date, loan agreements signed with the banks required the Group to maintain the equity ratio (equity to equity and liabilities) at 25% or above (actual ratio at the end of 2016: 38.6%; 2015: 40.1%).

The laws of the parent company's domicile provide minimum requirements to a company's equity. By law, the equity of a limited company defined as *aktsiaselts* (AS) has to amount to at least half of its share capital but not less than 25 thousand euros.

In the reporting period, the Group was in compliance with all contractual and regulatory capital and ratio requirements.

Dividend policy

Dividend policy plays a significant role in the Group's capital management. The board's dividend payment proposal is made by reference to the following key factors:

- the Group's performance indicators for the year and the cash flow required for the Group's operation;
- the optimal ratio and volume of debt and equity capital required for the Group's profitable growth and sustainable development;
- the dividend expectations of the controlling shareholder AS Nordic Contractors;
- the general rate of return on the Estonian securities market.

Dividends distributed by Nordecon AS in previous years

Year of pay-out	Total dividends paid EUR '000	Number of shares, in thousands	Dividend per share EUR	Dividend pay-out ratio*
2008	5,897	30,757	0.19	34.5%
2009	1,966	30,757	0.06	21.1%
2010	0	30,757	0	0%
2011	0	30,757	0	0%
2012	0	30,757	0	0%
2013	0	30,757	0	0%
2014	923	30,757	0.03	19.9%
2015	923	30,757	0.03	47.2%
2016	923	30,757	0.03	515.6%

* Formula: dividends paid/profit for the period attributable to owners of the parent from which the dividends were distributed

The board proposes that in 2017 the company should distribute for 2016 a dividend of 0.045 euros per share (1,384 thousand euros in aggregate), which would give rise to a maximum income tax expense of 346 thousand euros. Own (treasury) shares do not grant the company any shareholder rights (note 24).

NOTE 6. Group entities

At 31 December 2016, the consolidated financial statements of Nordecon Group included 25 subsidiaries (2015: 26), of which 19 were incorporated and domiciled in Estonia (2015: 20), 3 in Ukraine (2015: 3), 1 in Lithuania (2015: 1), 1 in Sweden (2015: 1) and 1 in Finland (2015: 1).

The parent company's interests in subsidiaries as at the reporting date:

Subsidiary	Core business	Country of incorporation	Ownership interest 2016 (%)	Ownership interest 2015 (%)
Nordecon Betoon OÜ	Concrete works	Estonia	52	52
Eston Ehitus AS	Building construction	Estonia	100	100
Järva Teed AS	Road construction and maintenance	Estonia	100	100
Hiiu Teed OÜ	Road construction and maintenance	Estonia	100	100
Kaurits OÜ	Leasing out heavy equipment and construction (as a subcontractor)	Estonia	66	66
EE Ressursid OÜ	Geological surveying	Estonia	100	100
Kalda Kodu OÜ	Real estate development	Estonia	100	100
Magasini 29 OÜ	Real estate development	Estonia	100	100
Eurocon OÜ[4]	Holding company (UKR)	Estonia	100	96
Eurocon Vara OÜ	Holding company (UKR)	Estonia	100	100
SWENCN OÜ	Holding company (SE)	Estonia	60	60
Eurocon Ukraine TOV	Building construction	Ukraine	100	100
Instar Ukraine TOV[4]	Real estate development	Ukraine	98	98
Estcon Oy	Concrete works	Finland	52	52
Nordecon Statyba UAB[4]	Building construction	Lithuania	80	80
SWENCN AB	Building construction	Sweden	60	60

[4] Dormant

In addition to the above subsidiaries, the Group includes OÜ Eesti Ehitus, OÜ Aspi, OÜ Linnaehitus (all established for the protection of former business names), Infra Ehitus OÜ, Eurocon Bud TOV and four entities holding properties with nature conservation restrictions: OÜ Paekalda 2, OÜ Paekalda 3, OÜ Paekalda 7 and OÜ Paekalda 9. All of them are dormant and all are incorporated and domiciled in Estonia except for Eurocon Bud TOV which is incorporated and domiciled in Ukraine.

At 31 December 2016, the Group had interests in 5 associates (2015: 5) and 1 joint venture (2015: 1). Further information on equity-accounted investees is presented in note 12.

Information on changes in the Group's structure is provided in note 7.

Summarised financial information for subsidiaries with material non-controlling interests

EUR '000 2016 Company	Nordecon Betoon OÜ	Kaurits OÜ	SWENCN AB	Total
Current assets	10,326	1,079	1,513	**12,918**
Non-current assets	327	1,868	0	**2,195**
Current liabilities	7,064	1,619	1,442	**10,125**
Non-current liabilities	30	489	0	**519**
Equity	3,559	839	71	**4,469**
Revenue	40,263	6,857	7,520	**54,640**
Profit	1,567	92	48	**1,707**
Non-controlling interests' share of profit	752	31	19	**802**
Interest held by non-controlling interests, %	48%	34%	40%	
Cash flows from operating activities	3,570	318	936	**4,824**
Cash flows from financing activities	-616	-453	0	**-1,069**
Cash flows from investing activities	-13	110	0	**97**
Net cash flow	2,941	-25	936	**3,852**

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EUR '000 2015 Company	Nordecon Betoon OÜ	Kaurits OÜ	SWENCN AB	Total
Current assets	5,485	699	620	**6,804**
Non-current assets	565	2,320	0	**2,885**
Current liabilities	3,694	1,248	596	**5,538**
Non-current liabilities	64	1,023	0	**1,087**
Equity	2,292	748	24	**3,064**
Revenue	22,518	4,778	132	**27,428**
Profit/loss	254	-272	5	**-13**
Non-controlling interests' share of profit/loss	122	-92	2	**32**
Interest held by non-controlling interests, %	48%	34%	40%	
Cash flows from operating activities	-199	153	0	**-46**
Cash flows from financing activities	-613	-435	0	**-1,048**
Cash flows from investing activities	-186	192	0	**6**
Net cash flow	-998	-90	0	**-1,088**

At 31 December 2016, non-controlling interests in the Group's equity totalled 2,118 thousand euros (31 December 2015: 1,528 thousand euros), of which non-controlling interests in Nordecon Betoon OÜ, Kaurits OÜ and SWENCN AB accounted for 1,715 thousand, 410 thousand and 6 thousand euros respectively (31 December 2015: 1,107 thousand, 379 thousand and -2 thousand euros respectively). The remaining non-controlling interests, none of which is individually material for the Group, totalled -13 thousand euros (31 December 2015: 44 thousand euros).

NOTE 7. Changes in Group structure

Disposal of a subsidiary

In May 2016, Nordecon Betoon OÜ (in which the Group's ownership interest is 52%) sold its wholly-held subsidiary OÜ Mapri Projekt, which was dormant.

Acquisition of an additional interest in a subsidiary

On 3 October 2016, Nordecon AS acquired an additional 4% stake in Eurocon OÜ, increasing its ownership interest to 100%. The acquisition gave rise to negative goodwill of 139 thousand euros which was recognised in *Other operating income* (note 29).

Eurocon OÜ	Carrying amount	EUR'000 Fair value
Net assets	93	93
Interest acquired	4%	
Value of net assets acquired	93	93
Cost		15
Paid on acquisition		15
Cash flow from acquisition of the subsidiary		-15

NOTE 8. Cash and cash equivalents

EUR '000	31 December 2016	31 December 2015
Current accounts	9,786	6,332
Total cash and cash equivalents	**9,786**	**6,332**

The amounts in current accounts are placed in overnight deposits with banks. In the reporting period, the interest rate of overnight deposits was 0.01% (2015: 0.01%). A significant share of the Group's current accounts are with the following banking groups: Swedbank, Nordea Bank and SEB.

The Group's exposure to interest rate risk and a sensitivity analysis of the Group's financial assets and liabilities are disclosed in note 32.

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NOTE 9. Trade and other receivables

EUR '000 Current items	Note	31 December 2016	31 December 2015
Trade receivables	32	12,905	11,519
Retentions receivable	26, 32	491	97
Receivables from related parties	32, 35	19	211
Loans to related parties	32, 35	275	305
Other receivables	32	276	1,276
Total receivables and loans provided		**13,966**	**13,408**
Due from customers for contract work	26, 32	7,089	4,095
Total current trade and other receivables		**21,055**	**17,503**

EUR '000 Non-current items	Note	31 December 2016	31 December 2015
Loans to related parties	32, 35	10,351	9,878
Other non-current receivables	32	465	638
Total non-current trade and other receivables		**10,816**	**10,516**

Trade receivables are presented net of the impairment allowance, which at the year-end amounted to -82 thousand euros (31 December 2015: -47 thousand euros). Changes in the impairment allowance are disclosed in note 32.

Retentions receivable comprise the amounts of progress billings withheld by customers until the completion of construction or some other date agreed in the construction contract. The year-end amounts are expected to be recovered within twelve months.

Other non-current receivables comprise a loan to a third party and a Ukrainian subsidiary's withholding tax on payments to a non-resident. According to Ukrainian law, 10% of loan interest paid to a non-resident is withheld and this can only be used to offset the income tax payable on dividends distributed in Estonia.

Long-term loans provided to the Ukrainian associates

At 31 December 2016, the Group's long-term loans to related parties of 10,351 thousand euros (31 December 2015: 9,878 thousand euros) included loans provided to its Ukrainian associates and related accrued interest of 8,637 thousand euros, including loans to Techopolis-2 TOV of 998 thousand euros and V.I. Center TOV of 7,639 thousand euros (31 December 2015: 8,302 thousand, 929 thousand and 7,373 thousand euros respectively) (note 35). The loans were provided for the acquisition and development of real estate (properties). The properties are located in Shastliv village near Kiev, next to the Kiev-Borispol motorway. The plan is to build a warehouse and logistics centre on the properties held by Techopolis-2 TOV and commercial premises on the properties held by V.I. Center TOV. The latter project has been started but is currently on hold. The loan provided to V.I. Center TOV is secured with a mortgage of 7,000 thousand euros. The Group has invested in both projects together with the controlling shareholders in proportion to its ownership interest. Repayment of the loans depends on how successfully the above real estate projects can be realised. The risks related to the Ukrainian market and the Group's action plan are described in the chapters *The Group's operations in Estonia and foreign markets* and *Outlooks of the Group's geographical markets* and in note 5.

Based on the valuation reports of the above development projects, issued by a recognised independent international appraiser in 2016, at 31 December 2016 there was no need to write the loans down. According to the assessment of the Group's management, all assumptions applied in the valuation of the loans were realistic but due to the complicated situation of the Ukrainian economy the sensitivity of the value of the loans is higher than usual. Management estimated the following key valuation inputs: the projects' cash flows (expected rental prices), the discount rates, the vacancy rates of the commercial premises to be rented out, and the time factors of realisation (delays in the completion of the development projects). Based on the fair value measurement inputs, the loans belong to level 3 in the fair value hierarchy established in IFRS 13 *Fair Value Measurement*.
The key valuation inputs applied were as follows:

- a discount rate of 14-17%;
- a vacancy rate of 10-30% for the warehouse and logistics centre and 10-50% for the commercial premises, depending on the year;
- rental prices of 2-16 euros per square metre for the warehouse and logistics centre and 9-22 euros per square metre and 32-303 euros per day for the commercial premises;
- a forecast period of 2017-2024 plus growth in the terminal year of 2%.

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According to the sensitivity analysis (assuming that all other variables remain constant):

- if rental prices decreased by 10% compared with the ones applied, the loans would have to be written down by around 2,427 thousand euros;
- if the vacancy rate of the commercial premises rose by 5 percentage points, the loans would have to be written down by around 1,396 thousand euros;
- if the discount rate rose by 1 percentage point, the loans would have to be written down around 1,933 thousand euros.
- if the completion of the development projects, taken as a whole, was delayed by 1 year, the loans would have to be written down around 831 thousand euros.

NOTE 10. Prepayments

EUR '000	31 December 2016	31 December 2015
Prepayments to suppliers	967	922
Prepaid taxes	320	297
Prepaid expenses	357	380
Total prepayments	**1,644**	**1,599**

Prepayments to suppliers comprise prepayments for services of 852 thousand euros (31 December 2015: 887 thousand euros) and building materials of 115 thousand euros (31 December 2015: 35 thousand euros).

NOTE 11. Inventories

EUR '000	31 December 2016	31 December 2015
Raw materials and consumables	4,074	4,603
Work in progress	5,060	1,754
Finished goods	1,187	2,100
Goods for resale and properties held for development	12,671	15,146
Total inventories	**22,992**	**23,603**

In 2016, inventories of 14,654 thousand euros (2015: 10,523 thousand euros) were recognised in *Cost of sales*.

Raw materials and consumables comprise inventories acquired for construction and road maintenance operations. In 2016, there were no write-downs of materials and consumables (2015: no write-down).

Work in progress comprises the costs related to construction contracts in progress at the reporting date (the costs related to work not yet delivered to customers). Goods for resale and properties held for development comprise the following items:

EUR '000	31 December 2016	31 December 2015
Capitalised pre-development expenditures	1,788	2,384
Properties purchased	10,883	12,762
Total	**12,671**	**15,416**
Of which borrowing costs	**1,245**	**1,120**

In 2016, capitalised borrowing costs accounted for 18% of the Group's total borrowing costs (2015: 21%).

Finished goods comprise the construction costs of apartments completed but not yet sold. During the period, the net realisable values of the apartments did not decrease below their carrying amounts and no write-downs were recognised (2015: no write-down). Net realisable values were estimated using comparisons with the market prices of similar apartments.

At the reporting date, the total carrying value of properties (plots) acquired for development was 10,883 thousand euros (2015: 12,762 thousand euros). A property acquired for development is carried in *Goods for resale and properties held for development* until it is sold as a separate asset or its development reaches the phase where the building on it is ready for sale at which point the property or part of it is reclassified to *Finished goods*. All post-acquisition pre-development expenditures that qualify for capitalisation are recognised in *Work in progress*.

At the year-end, properties acquired for development were carried at cost. In the reporting period, no properties (plots) acquired for development were written down (2015: no write-down). According to management's assessment, at 31 December 2016, properties held for development comprised properties of 3,584 thousand euros on which development will start in 2017 and properties of 7,299 thousand euros on which development will start in 2018 and later. According to the Group's estimates, the normal time frame for development activity (from the acquisition of the plot to the sale of the completed development project) is 10 to 15 years.

Information on inventories pledged as collateral is provided in note 34.

Potential impact of changes in estimates

The Group measured the net realisable values of properties (plots) acquired for development using the residual value method. Significant valuation inputs included the expected cash flows of the project (the apartments' expected sales price per square metre, which was set at 1,500 to 2,050 euros, depending on the location). A sensitivity analysis showed that if actual sales proceeds were 10% smaller (compared with the estimates), properties acquired for development would have to be written down by around 1,469 thousand euros.

The net realisable values of apartments completed but not sold were measured by reference to the actual sales prices of similar apartments sold near the reporting date. One of the key valuation inputs was price per square metre. A sensitivity analysis showed that if actual sales proceeds were 10% smaller (compared with the estimates), completed but unsold apartments would have to be written down by around 119 thousand euros.

NOTE 12. Investments in equity-accounted investees

General information on equity-accounted investees

			Group's interest		
Name and type of investee		Domicile	31 December 2016	31 December 2015	Core business
V.I. Center TOV	Associate	Ukraine	44%	44%	Real estate development
Technopolis-2 TOV	Associate	Ukraine	50%	50%	Real estate development
Kastani Kinnisvara OÜ	Associate	Estonia	26%	26%	Real estate development
Embach Ehitus OÜ	Associate	Estonia	46%	46%	Building construction
Pigipada OÜ	Associate	Estonia	49%	49%	Bitumen refining
Unigate OÜ	Joint venture	Estonia	50%	50%	Real estate development

On 3 February 2015, Nordecon AS acquired a 46% stake in Embach Ehitus OÜ, a company being formed. The transaction took place on the date of signature of the entity's memorandum of association.

Embach Ehitus OÜ is a general contractor in the building construction segment. The company offers its services primarily to private sector customers interested in carrying out construction and development projects in southern Estonia. At the date of establishment, the share capital of Embach Ehitus OÜ amounted to 2,500 euros. Nordecon AS made the investment to respond flexibly to the changes taking place in the construction market and to move closer to prospective customers.

Carrying amount of investments in equity-accounted investees

EUR '000	2016	2015
Total investments in equity-accounted investees at beginning of period	**1,179**	**694**
Investments acquired	0	357
Profit under the equity method	609	226
Dividends received	-148	-98
Total investments in equity-accounted investees at end of period	**1,640**	**1,179**

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Financial information of equity-accounted investees

2016

Summary financial information of associates presented as separate companies

EUR '000

Company	V.I. Center TOV	Tehnopolis-2 TOV	Kastani Kinnisvara OÜ	Embach Ehitus OÜ	Pigipada OÜ	Total
Current assets	359	53	15	8,248	1,197	**9,872**
Non-current assets	6,921	145	0	17	514	**7,597**
Current liabilities	21,626	2,772	64	6,743	105	**31,310**
Equity	-14,346	-2,575	-49	1,508	1,606	**-13,856**
Revenue	1	0	95	25,841	4,564	**30,501**
Expenses	-1,687	-343	-123	-24,738	-4,042	**-30,933**
Profit/loss	-1,686	-343	-28	1,103	447	**-507**
Carrying amount of investment	0	0	0	693	787	**1,480**

The Group does not have a binding obligation to restore the negative equity of the Ukrainian associates. Therefore, relevant provisions have not been recognised.

Summary financial information of the joint venture presented as a separate company

EUR '000			31 December 2016			2016	31 December 2016
Company	Current assets	Non-current assets	Current liabilities	Non-current liabilities	Revenue	Loss	Carrying value
Unigate OÜ	3,747	0	0	3,427	0	-237	160

At 31 December 2016, non-current liabilities included loan liabilities of 2,905 thousand euros. In 2016, interest expense on loans amounted to 235 thousand euros.

2015

Summary financial information of associates presented as separate companies

EUR '000

Company	V.I. Center TOV	Tehnopolis-2 TOV	Kastani Kinnisvara OÜ	Embach Ehitus OÜ	Pigipada OÜ	Total
Current assets	385	56	141	4,097	968	**5,647**
Non-current assets	6,955	156	0	25	571	**7,707**
Current liabilities	21,070	2,634	162	3,718	80	**27,664**
Equity	-13,730	-2,422	-21	404	1,459	**-14,310**
Revenue	0	0	62	7,935	5,023	**13,020**
Expenses	-5,876	-858	-109	-7,533	-4,674	**-19,050**
Profit/loss	-5,876	-858	-47	402	349	**-6,030**
Carrying amount of investment	0	0	0	186	715	**901**

Summary financial information of the joint venture presented as a separate company

EUR '000			31 December 2015			2015	31 December 2015
Company	Current assets	Non-current assets	Current liabilities	Non-current liabilities	Revenue	Loss	Carrying value
Unigate OÜ	3,708	0	3,152	0	0	-233	278

At 31 December 2015, current liabilities included loan liabilities of 2,864 thousand euros. In 2015, interest expense on loans amounted to 231 thousand euros. In 2015, shareholders increased the par value of the share by 2 euros to 6 thousand euros in order to adjust share capital to the requirements of the Commercial Code. Both shareholders made a monetary contribution of 355 thousand euros of which 1 euro was recognised as an increase of share capital and 354.9 thousand euros was recognised as share premium.

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The Group's share of profits and losses of equity-accounted investees

The Group's share of the profits and losses of the associates V.I. Center TOV, Technopolis-2 TOV and Kastani Kinnisvara OÜ are accounted for off the statement of financial position until their equity is negative.

EUR '000	Recorded in 2016			Recorded in 2015		
	Profit/ loss	In the Group's profit or loss	Off the statement of financial position	Profit/ loss	In the Group's profit or loss	Off the statement of financial position
V.I. Center TOV	-742	0	-742	-2,585	0	-2,585
Technopolis-2 TOV	-172	0	-172	-429	0	-429
Kastani Kinnisvara OÜ	-7	0	-7	-23	-13	-10
Embach Ehitus OÜ	508	508	0	185	185	0
Pigipada OÜ	219	219	0	171	171	0
Unigate OÜ	-118	-118	0	-117	-117	0
Total	**-312**	**609**	**-921**	**-2,798**	**226**	**-3,024**

NOTE 13. Investment property

EUR '000	2016	2015
Investment property at 1 January	**4,929**	**3,549**
Reclassification from inventories	0	1,380
Investment property at 31 December	**4,929**	**4,929**

The period's rental income on investment properties amounted to 10 thousand euros (2015: 14 thousand euros) and direct property management expenses totalled 2 thousand euros (2015: 6 thousand euros). Investment properties that do not generate rental income did not give rise to any significant property management expenses. Information on assets pledged as collateral for financial liabilities is provided in note 34.

The Group measured the fair values of its investment properties using the discounted cash flow method (see note 2 for the description). The properties have current detailed design plans and their intended purpose is commercial land and production land. The areas of the plots are around 6 thousand, 15 thousand and 42 thousand square metres and the areas of the buildings which will be built extend to 15 thousand, 14 thousand and 20 thousand square metres respectively. The construction price per square metre which was used as an input of the discounted cash flow method ranged from 440 to 720 euros, depending on the purpose of the building (production or office space). The construction prices of the buildings to be built on commercial land are relatively low because their location sets lower functionality requirements. Average rental prices are up to 11 euros per square metre for commercial and up to 5 euros per square metre for production premises. Index-linked growth in rental and other income extends to up to 2.5% per year (based on the Group's historical experience).

Under the fair value measurement hierarchy provided in IFRS 13 *Fair Value Measurement*, the investment properties have been categorised to level 3, which means that their fair values have been measured using unobservable inputs (rental prices, construction costs, vacancy rates, construction time and discount rates). The valuation of investment properties as at the end of 2016 had no impact on the Group's net profit and other comprehensive income for the year because based on valuation results the difference between fair values and the carrying amounts of the properties in the Group's statement of financial position was less than 15%.

Further information on investment property can be found in note 2, within *Use of significant accounting estimates and judgements*, and note 5, within *Determination of fair value – Investment property*.

Potential impact of changes in estimates

A rise in construction prices has a direct impact on the outcome of the measurement of the fair value of investment property. If construction prices rose by 5% (assuming that all other variables remain constant), investment property would have to be written down by around 353 thousand euros. Another factor which can have a significant impact is a decrease in the rental prices applied. If rental prices decreased by 5% (assuming that all other variables remain constant), investment property would have to be written down by around 816 thousand euros. If the discount rate applied were 1 percentage point higher (the discount rate applied was 13%) (assuming that all other variables remain constant), investment property would have to be written down by around 29 thousand euros.

NOTE 14. Property, plant and equipment

EUR '000	Land and buildings	Plant and equipment	Other items of PP&E	Assets under construction	Total
Cost					
At 31 December 2014	**2,642**	**19,443**	**3,561**	**118**	**25,764**
Additions	11	1,779	443	25	2,258
Disposals	0	-1,687	-673	-4	-2,364
Effect of movements in exchange rates	0	-17	-8	0	-25
At 31 December 2015	**2,653**	**19,518**	**3,323**	**139**	**25,633**
Additions	106	3,324	77	0	3,507
Disposals	0	-1,447	-210	-25	-1,682
Effect of movements in exchange rates	0	-4	-1	0	-5
At 31 December 2016	**2,759**	**21,391**	**3,189**	**114**	**27,453**
Accumulated depreciation					
At 31 December 2014	**652**	**12,718**	**3,075**	**0**	**16,445**
Depreciation for the year	95	1,502	239	0	1,836
Disposals	0	-1,626	-618	0	-2,244
Effect of movements in exchange rates	0	-18	-9	0	-27
At 31 December 2015	**747**	**12,576**	**2,687**	**0**	**16,010**
Depreciation for the year	95	1,721	129	0	1,945
Disposals	0	-1,420	-189	0	-1,609
Effect of movements in exchange rates	0	-3	-1	0	-4
At 31 December 2016	**842**	**12,874**	**2,626**	**0**	**16,342**
Carrying amount					
At 31 December 2014	**1,990**	**6,725**	**486**	**118**	**9,319**
At 31 December 2015	**1,906**	**6,942**	**636**	**139**	**9,623**
At 31 December 2016	**1,917**	**8,517**	**563**	**114**	**11,111**

Group entities have secured their liabilities by mortgaging their land and buildings. Information on assets pledged as collateral is provided in note 34.

Depreciation expense has been recognised in *Cost of sales* in an amount of 1,907 thousand euros (2015: 1,810 thousand euros) (note 27) and in *Administrative expenses* in an amount of 31 thousand euros (2015: 26 thousand euros) (note 28).

Assets held under finance leases (carried in property, plant and equipment)

EUR '000	Plant and equipment	Other items of PP&E	Total	Plant and equipment	Other items of PP&E	Total
			2016			2015
Cost at 31 December	13,977	557	14,534	11,749	468	12,217
Carrying amount at 31 December	9,964	335	10,299	6,411	342	6,753

In 2016, the Group signed new finance lease contracts of 3,503 thousand euros (2015: 2,485 thousand euros).

NOTE 15. Intangible assets

EUR '000	Goodwill	Software licences	Trademarks	Development expenditures	Total
Cost					
At 31 December 2014	**18,773**	**49**	**863**	**457**	**20,142**
Additions	0	14	0	7	21
Write-off	0	0	0	-42	-42
At 31 December 2015	**18,773**	**63**	**863**	**422**	**20,121**
Additions	0	0	0	17	17
At 31 December 2016	**18,773**	**63**	**863**	**439**	**20,138**

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Accumulated amortisation and impairment losses					
At 31 December 2014	**4,597**	**49**	**863**	**0**	**5,509**
Amortisation for the year	0	3	0	0	3
At 31 December 2015	**4,597**	**52**	**863**	**0**	**5,512**
Amortisation for the year	0	3	0	0	3
At 31 December 2016	**4,597**	**55**	**863**	**0**	**5,515**
Carrying amount					
At 31 December 2014	**14,176**	**0**	**0**	**457**	**14,633**
At 31 December 2015	**14,176**	**11**	**0**	**422**	**14,609**
At 31 December 2016	**14,176**	**8**	**0**	**439**	**14,623**

Capitalised development expenditures result from preparations made for the extraction of sand from the seabed. The preparations will continue in 2017.

Amortisation has been recognised in *Administrative expenses* in an amount of 3 thousand euros (2015: 3 thousand euros) (note 28).

The Group has no intangible assets with an indefinite useful life other than goodwill.

Impairment testing for cash-generating units containing goodwill

The Group has acquired goodwill on the acquisition of interests in subsidiaries. Goodwill is related to the cash-generating capabilities of an operating segment of the parent or a subsidiary. Therefore, for the purpose of impairment testing operating segments and subsidiaries represent the lowest level within the Group at which goodwill is monitored for internal management purposes (cash-generating units). The value in use of each operating segment of the parent and subsidiary was determined using the discounted cash flow method and it was compared with the carrying amount of the investment in the segment's or subsidiary's equity (including goodwill).

Carrying amounts of goodwill allocated to the subsidiaries

Company	Interest 2016	Interest 2015	31 December 2016	EUR '000 31 December 2015
Nordecon AS				
Goodwill*	-	-	8,206	8,206
Of which: Buildings			5,449	5,449
Infrastructure			2,757	2,757
Subsidiaries				
Nordecon Betoon OÜ	52%	52%	181	181
Kaurits OÜ	66%	66%	2,022	2,022
AS Eston Ehitus	100%	100%	3,767	3,767
Total			**14,176**	**14,176**

General assumptions for determining value in use

In 2016, presentation of the impairment testing for goodwill allocated to Nordecon AS was changed. Goodwill, which was previously reported as a single amount, was divided into goodwill of the Buildings segment and goodwill of the Infrastructure segment.

Management's key assumptions and estimates on the basis of which the cash-generating units (CGUs) including goodwill were tested for impairment are described below. Management's estimates were mainly based on historical experience but also took into account the market situation and other relevant information at the date the impairment test was performed.

- The forecast period was 2017-2020 plus the terminal year.
- The present value of future cash flows was found using the average weighted cost of capital (WACC) as the discount rate. The proportions of debt and equity capital used as weights were based on the capital structures of similar companies (measured at average market value), which according to the Damodaran database were 46.3% and 53.7% respectively.
- The cost of debt was estimated based on the CGUs' actual loan interest rates, which ranged from 2.0% to 3.3%. The expected rate of return on equity was set at 15%, which was compared against the required rate of return on equity for companies operating in a similar industry in the Damodaran database.

- Changes in subsequent periods' revenues were projected on the basis of the CGUs' action plans for subsequent years (including the budgets approved by management for 2017) and an assessment of the market situation in the segment where the specific CGU operates.
- Changes in subsequent periods' gross margins were projected on the basis of the CGUs' action plans for subsequent years (including the budgets approved by management for 2017) and an assessment of the market situation in the segment where the specific CGU operates.
- Administrative expenses which affect operating cash flow were projected on the basis of the budgets approved by management for 2017.
- Changes in working capital investments were projected based on the expected revenue change against the comparative period. The absolute revenue change was used to estimate the portion (5%) that is expected to be needed for raising additional working capital upon revenue growth or to be released upon revenue decline.
- Changes in capital expenditures were projected on the basis of the investment budgets approved by management for 2017 and by applying to it growth rates suitable for subsequent years, estimated by reference to projections of the specific CGU's future operations.

Nordecon AS Infrastructure	Assumptions applied
Forecast period	2017-2020 + terminal year
Discount rate	9.2%
Revenue change	2017: 16%, 2018-2020: compound annual growth rate (CAGR) 9.7%, terminal year: 1%
Gross margin	2017: based on budget, 2018-2020: forecast gradual growth to up to 6.5%, terminal year: 6.5%
Administrative expenses	See general assumptions, 2017-2020: ca 3% of revenue, terminal year: 2.9%
Working capital	See general assumptions
Capital expenditures	See general assumptions

Nordecon AS Buildings	Assumptions applied
Forecast period	2017-2020 + terminal year
Discount rate	9.3%
Revenue change	2017: 11%, 2018-2020: compound annual growth rate (CAGR) -2.1%, terminal year: 1%
Gross margin	2017: based on budget, 2018-2020: forecast gradual growth to up to 6.5%, terminal year: 6.5%
Administrative expenses	See general assumptions, 2017-2020: ca 3% of revenue, terminal year: 3.1%
Working capital	See general assumptions
Capital expenditures	See general assumptions

Nordecon Betoon OÜ	Assumptions applied
Forecast period	2017-2020 + terminal year
Discount rate	9.6%
Revenue change	2017: -36%, 2018-2020: compound annual growth rate (CAGR) 3.3%, terminal year: 1%
Gross margin	2017: based on budget, 2018-2020: forecast gradual growth to up to 7.5%, terminal year: 7.5%
Administrative expenses	See general assumptions, 2017-2020: ca 3% of revenue, terminal year: 2.5%
Working capital	See general assumptions
Capital expenditures	See general assumptions

Kaurits OÜ	Assumptions applied
Forecast period	2017-2020 + terminal year
Discount rate	9.0%
Revenue change	2017: -10%, 2017-2019: compound annual growth rate (CAGR) 9.8%, terminal year: 1%
Gross margin	2017: based on budget, 2018-2020: forecast gradual growth to up to 9%, terminal year: 9%
Administrative expenses	See general assumptions, 2017-2020: ca 4% of revenue, terminal year: 4%
Working capital	See general assumptions
Capital expenditures	See general assumptions. 2017-2020: continuing renewal of machinery fleet.

Eston Ehitus AS	Assumptions applied
Forecast period	2017-2020 + terminal year
Discount rate	9.4%
Revenue change	2017: 56%, 2018-2020: compound annual growth rate (CAGR) 6.6%, terminal year: 1%
Gross margin	2017: based on budget, 2018-2020: forecast gradual growth to up to 7%, terminal year: 7%
Administrative expenses	See general assumptions, 2017-2020: ca 2% of revenue, terminal year: 2% (own support functions minimal; a significant share of expenses included in project costs)
Working capital	See general assumptions
Capital expenditures	See general assumptions

According to the results of impairment testing, there was no need to write goodwill down in 2016 or in 2015.

Potential impact of changes in estimates

The value in use of a cash-generating unit is compared to the carrying amount of the investment made plus the carrying amount of the goodwill allocated to it. Value in use is an estimate. Therefore, any changes in selected inputs may increase or reduce the value obtained. Management performed a sensitivity analysis that reflected how a change in discount rates, revenue and gross margin would affect the recoverable amount of goodwill.

The total value in use of the cash-generating units to which goodwill has been allocated will exceed the carrying amount of the investments and the goodwill allocated to them as long as the rise in the discount rate does not exceed: 1.7 percentage points for Nordecon AS Infrastructure, 3.9 percentage points for Nordecon AS Buildings, 1.8 percentage points for Kaurits OÜ, and 1.8 percentage points for Eston Ehitus AS, assuming all other variables remain constant. A change in the discount rate would have no impact on the impairment testing of goodwill allocated to Nordecon Betoon OÜ.

If revenue change proved 5 percentage points smaller, assuming all other variables remain constant, the goodwill allocated to Nordecon AS Infrastructure would have to be written down by 1,990 thousand euros and the goodwill allocated to Eston Ehitus AS would have to be written down by 977 thousand euros. The goodwill allocated to other cash-generating units would not have to be written down.

If the change in gross margin proved 1 percentage point smaller, assuming all other variables remain constant, the goodwill allocated to Nordecon AS Infrastructure would have to be written down by 2,757 thousand euros and the goodwill allocated to Eston Ehitus AS would have to be written down by 84 thousand euros. The goodwill allocated to other cash-generating units would not have to be written down.

NOTE 16. Borrowings

Current borrowings

EUR '000	Note	31 December 2016	31 December 2015
Overdraft liabilities		1,732	7,290
Current portion of non-current borrowings, of which:		4,565	6,016
Bank loans		2,485	4,323
Other long-term loans		10	174
Finance lease liabilities	17	2,070	1,519
Short-term bank loans		0	266
Factoring liabilities		0	2,143
Total current borrowings		**6,297**	**15,715**

Non-current borrowings

EUR '000	Note	31 December 2016	31 December 2015
Total non-current borrowings		17,667	11,114
Of which current portion		4,565	6,016
Non-current portion, of which:		**13,102**	**5,098**
Bank loans		3,557	1,960
Overdrafts		5,879	0
Finance lease liabilities	17	3,645	3,138
Derivative financial instruments		21	0

The Group has entered into a derivative contract to manage the risks related to changes in interest rates. The contract took effect on 16 May 2016 and the maturity date is 16 April 2021. The nominal amount of the contract is 2,153 thousand euros.

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Details of loans as at 31 December 2016

EUR '000 Loan type	Base currency	Interest rate	Up to 1 year	1-2 years	3-... years	Total loan	Maturity date
Overdraft	EUR	Bank's base rate+ 2.7%	1,639	0	0	1,639	31 December 2017
Overdraft	EUR	Bank's base rate+ 2.0%	0	5,879	0	5,879	31 January 2018
Overdraft	EUR	6M EURIBOR+ 2.5%	93	0	0	93	30 June 2017
Investment loan	EUR	6M EURIBOR+ 3.2%	0	91	0	91	10 June 2018
Investment loan	EUR	6M EURIBOR+ 1.8%	35	75	0	110	25 January 2020
Investment loan	EUR	6M EURIBOR+ 4.0%	1,850	0	0	1,850	5 June 2017
Investment loan	EUR	3M EURIBOR+ 3.7%	0	1,235	0	1,235	29 March 2018
Investment loan	EUR	3M EURIBOR+ 3.7%	0	958	0	958	29 March 2018
Investment loan	EUR	4.25%	600	1,198	0	1,798	24 December 2019
Working capital loan	EUR	6.0%	9	0	0	9	31 December 2017
Total loans			**4,226**	**9,436**	**0**	**13,662**	

Negotiations with banks regarding refinancing of the Group's loan commitments are held from March to May 2017. The decisions which will be made will affect all loan liabilities that mature in the first half of 2017. By the date of release of this report, banks have agreed to refinance liabilities of 3,489 thousand euros.

The Group has to agree its dividend distributions with the banks which finance its operations.

Details of loans as at 31 December 2015

EUR '000 Loan type	Base currency	Interest rate	Up to 1 year	1-2 years	3-... years	Total loan	Maturity date
Overdraft	EUR	4.0%	1,918	0	0	1,918	30 September 2016
Overdraft	EUR	Bank's base rate+ 2.7%	4,992	0	0	4,992	30 December 2016
Overdraft	EUR	6M EURIBOR+ 2.5%	98	0	0	98	30 June 2016
Overdraft	EUR	6M EURIBOR+ 2.5%	282	0	0	282	30 June 2016
Investment loan*	EUR	6M EURIBOR+ 3.2%	190	0	0	190	31 May 2017
Investment loan	EUR	6M EURIBOR+ 1.8%	35	106	4	145	25 January 2020
Investment loan	EUR	6M EURIBOR+ 4.0%	0	1,850	0	1,850	5 June 2017
Investment loan	EUR	3M EURIBOR+ 3.7%	1,700	0	0	1,700	6 June 2016
Investment loan	EUR	4.25%	2,398	0	0	2,398	15 May 2016
Investment loan	EUR	1M EURIBOR+ 3.7%	266	0	0	266	30 June 2016
Working capital loan	EUR	6.0%	165	0	0	165	1 August 2016
Working capital loan	EUR	6.0%	9	0	0	9	31 December 2016
Factoring liability	EUR	EONIA+ 2.5%	2,143	0	0	2,143	31 December 2016
Total loans			**14,196**	**1,956**	**4**	**16,156**	

NOTE 17. Finance and operating leases

Finance leases

The Group as a lessee

EUR '000	Note	2016	2015
Finance lease liabilities at beginning of year		**4,657**	**4,254**
Addition		3,568	2,161
Principal payments made		-2,510	-1,758
Finance lease liabilities at end of year, of which falling due:		**5,715**	**4,657**
Not later than 1 year	16	2,070	1,519
Later than 1 year and not later than 5 years	16	3,645	3,138
Base currency EUR		5,662	4,657
Base currency UAH		53	0
Interest rate for contracts denominated in EUR*		2.0%- 3.9%	2.0%- 3.9%
Interest rate for contracts denominated in UAH		20.0%	-
Weighted average interest rate		2.3%	2.3%
Interest expense of the period		170	144
Frequency of payments		Monthly	Monthly

* As a rule, the base rate for floating rate contracts is 3 month or 6 month EURIBOR.

At the end of the reporting period, the Group had no finance lease contracts for acquisition of assets in 2017.

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Under existing contracts, estimated minimum future finance lease rentals are payable as follows:

EUR '000			2016			2015
Payable	Minimum lease rentals*	Interest	Present value of minimum lease rentals	Minimum lease rentals*	Interest	Present value of minimum lease rentals
Not later than 1 year	2,208	138	2,070	1,635	116	1,519
Later than 1 year and not later than 5 years	3,803	158	3,645	3,260	122	3,138
Total	**6,011**	**296**	**5,715**	**4,895**	**238**	**4,657**

* Minimum lease rentals for leases with a floating interest rate have been found based on the EURIBOR base rate as at the reporting date.

Operating leases

Operating lease expenses recognised during the reporting period for:

EUR '000	2016	2015
Cars	833	795
Construction equipment	2,830	1,772
Premises	754	646
IT equipment	301	244
Total operating lease expenses	**4,718**	**3,457**

Under existing contracts, future operating lease rentals are payable as follows:

EUR '000		31 December 2016	31 December 2015
Not later than 1 year	Future minimum lease rentals	1,426	1,468
Later than 1 year and not later than 5 years	Future minimum lease rentals	2,529	2,859

The Group's operating leases can be terminated early without any significant penalties, provided notice is given as agreed in the contracts.

NOTE 18. Trade payables

EUR '000	Note	31 December 2016	31 December 2015
Trade payables	32	19,547	15,414
Accrued expenses related to contract work	32	9,328	5,164
Payables to related parties	35	936	1,960
Total current trade payables		**29,811**	**22,538**
Trade payables	32	98	104
Total non-current trade payables		**98**	**104**

Accrued expenses related to contract work relate to the stage of completion of construction contracts and represent the accrued costs of goods and services purchased for the performance of construction contracts.

NOTE 19. Other payables

EUR '000	Note	31 December 2016	31 December 2015
Payables to employees	32	3,259	3,447
Taxes payable		2,021	1,914
Accrued expenses	32	72	67
Miscellaneous payables	32	37	47
Total current other payables		**5,389**	**5,475**
Miscellaneous payables	32	117	96
Total non-current other payables		**117**	**96**

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Payables to employees comprise remuneration payable at the year-end, performance-related pay accrued based on the results for the financial year, and accrued vacation pay liabilities.

Accrued expenses include mainly interest accrued on loan liabilities.

Taxes payable

EUR '000	31 December 2016	31 December 2015
Value added tax	559	747
Personal income tax	437	337
Social security tax	785	636
Other taxes	240	194
Total taxes payable	**2,021**	**1,914**

NOTE 20. Deferred income

EUR '000	Note	31 December 2016	31 December 2015
Due to customers for contract work	26	4,034	3,166
Advances received for goods and services		94	67
Total deferred income		**4,128**	**3,233**

NOTE 21. Provisions

EUR '000	31 December 2016	31 December 2015
Current provisions	753	825
Non-current provisions	881	768
Total provisions	**1,634**	**1,593**

Changes in provisions

Under construction contracts, the Group is liable for the quality of its work during the post-construction warranty period which in the case of general construction and civil engineering generally lasts for 2 to 3 years and in the case of road construction for 2 to 5 years after the date of delivery.

Warranty provisions (EUR '000)	2016	2015
Opening balance	**1,124**	**1,158**
Provisions used and reversed	-562	-590
Provisions recognised	604	556
Closing balance, of which:	**1,166**	**1,124**
Current portion	519	604
Non-current portion	647	520

Other provisions (EUR '000)	2016	2015
Opening balance	**469**	**400**
Provisions recognised	124	224
Provisions used	-125	-155
Closing balance, of which:	**468**	**469**
Current portion	234	221
Non-current portion	234	248

A significant share of other provisions is made up of site rehabilitation provisions set up for restoring the sites of quarries used for the extraction of road construction materials. Rehabilitation provisions are used in accordance with the plans for closing the quarries.

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NOTE 22. Equity

Share capital

EUR '000	2016	2015
At 1 January	20,692	20,692
Reduction of share capital	-972	0
At 31 December	**19,720**	**20,692**

In accordance with the articles of association of Nordecon AS, the company's share capital consists of 32,375,483 ordinary shares with no par value which have been fully paid for. Owners of ordinary shares are entitled to dividends as distributed from time to time. Each share carries one vote at the general meetings of Nordecon AS. Without changing the articles of association, share capital may be changed in the range of 8,000 thousand to 32,000 thousand euros.

Share premium

Share premium arises when the issue price of a share exceeds the par value or book value of the share. Under the Estonian Commercial Code, share premium may be used for covering losses, if losses cannot be covered with retained earnings and the statutory capital reserve, and for increasing share capital through a bonus issue.

Capital reserve

The Estonian Commercial Code requires companies to set up a capital reserve. Each year at least one twentieth of profit for the year has to be transferred to the capital reserve until the reserve amounts to one tenth of share capital. The capital reserve may be used for covering losses and increasing share capital but not for making distributions to shareholders. At the reporting date, the capital reserve stood at 2,554 thousand euros (31 December 2015: 2,554 thousand euros).

Translation reserve

The translation reserve comprises foreign exchange differences from the translation of the financial statements of foreign subsidiaries whose functional currency differs from the Group's presentation currency. At the reporting date, the translation reserve stood at 1,549 thousand euros (31 December 2015: 1,358 thousand euros). The change is attributable to the weakening of the Ukrainian subsidiaries' functional currency against the euro.

Dividends

In 2016, the parent Nordecon AS distributed a dividend of 923 thousand euros (2015: 923 thousand euros) (note 5).

Reduction of share capital

On 25 May 2016 the annual general meeting of Nordecon AS adopted a resolution on the reduction of the company's share capital and on 16 September 2016 the reduction was registered at the Commercial Register.

Based on the decision of the annual general meeting, the company's share capital was reduced by 972 thousand euros, from 20,692 thousand euros to 19,720 thousand euros. Share capital was reduced by reducing the book value of the shares by 0.03 euros per share. The number of the company's shares remained the same and the book value of the shares decreased in proportion to the reduction of share capital.

The reduction of share capital of 923 thousand euros (0.03 euros per share) was paid out to shareholders on 19 December 2016. No payments were made to Nordecon AS for own shares held by the company.

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NOTE 23. 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.

	2016	2015
Profit for the year attributable to owners of the parent (EUR '000)	3,044	179
Weighted average number of shares (in thousands)	30,757	30,757
Basic earnings per share (EUR)	0.10	0.01
Diluted earnings per share (EUR)	0.10	0.01

At the reporting date, Nordecon AS had no dilutive share options. Therefore, diluted earnings per share equal basic earnings per share.

NOTE 24. Share-based payments

The 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 to ensure consistency in the company's management and improvement of the company's performance, and enable the executive management to benefit from their contribution to growth in the value of the company's share. The number of shares that may be subscribed for under the option agreements signed with the Group's executive management differs 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 line 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. The share options may not be transferred. 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 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 in July 2014 by 1,035 thousand euros by issuing 1,618,755 new shares with no 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 25. Segment reporting

The Group's chief operating decision maker is the board of the parent company Nordecon AS. This group of persons 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 (EU)
- Buildings Ukraine (UKR)
- Infrastructure European Union (EU)

Reportable operating segments are engaged in the provision of construction services in the buildings and infrastructure segments. 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.

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Preparation of segment reporting

The chief operating decision maker reviews inter-segment transactions separately and analyses their proportion in segment revenue. Respective figures are separately outlined in segment reporting. Information on the proportion of revenue earned on transactions with the largest customer is disclosed in the *Credit risk* section of note 5.

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

According to management's assessment, inter-segment transactions are conducted on regular market terms which do not differ significantly from the terms applied in transactions with third parties.

2016

EUR '000	Buildings EU	Buildings UKR	Infrastructure EU	Total reportable segments	Other segments	Total
Total revenue	130,630	4,318	42,075	177,023	6,857	183,880
Inter-segment revenue	-393	0	-628	-1,021	-2,487	-3,508
Revenue from external customers	**130,237**	**4,318**	**41,447**	**176,002**	**4,370**	**180,372**
Gross profit of the segment	**10,037**	**116**	**1,507**	**11,660**	**275**	**11,935**
Depreciation and amortisation	-79	-16	-1,400	-1,495	-445	-1,940
Segment assets	**56,314**	**11,252**	**14,912**	**82,478**	**3,074**	**85,552**
Investments in equity-accounted investees	853	0	787	1,640	0	1,640
Capital expenditures	45	186	3,251	3,482	17	3,499

2015

EUR '000	Buildings EU	Buildings UKR	Infrastructure EU	Total reportable segments	Other segments	Total
Total revenue	89,860	4,481	47,727	142,068	4,778	146,846
Inter-segment revenue	0	0	-99	-99	-2,149	-2,248
Revenue from external customers	**89,860**	**4,481**	**47,628**	**141,969**	**2,629**	**144,598**
Gross profit/loss of the segment	**6,244**	**41**	**4,117**	**10,402**	**-233**	**10,169**
Depreciation and amortisation	-79	-18	-1,238	-1,335	-458	-1,793
Segment assets	**49,549**	**10,529**	**13,824**	**73,902**	**3,441**	**77,343**
Investments in equity-accounted investees	464	0	715	1,179	0	1,179
Capital expenditures	109	15	1,616	1,740	537	2,277

Revenue from services provided to the Ministry of Defence, recognised using the stage of completion method, accounts for over 10% of the Group's revenue. In 2016 relevant revenue amounted to 23,333 thousand euros (2015: 10,203 thousand euros). The revenue is reported in the Buildings EU segment

Buildings EU revenue and gross profit include revenue and gross profit from the Group's development activities, which in 2016 amounted to 5,180 thousand euros and 771 thousand euros respectively (2015: 4,177 thousand and 401 thousand euros respectively).

The Group's construction contract revenue for 2016 amounted to 166,501 thousand euros (2015: 132,487 thousand euros).

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Adjustments

EUR '000	2016	2015
Depreciation and amortisation for reportable and other segments	-1,940	-1,795
Adjustments	-1	-44
Consolidated depreciation and amortisation	**-1,941**	**-1,839**
Capital expenditures for reportable and other segments	3,499	2,277
Adjustments	0	2
Consolidated capital expenditures	**3,499**	**2,279**
Investments in equity-accounted investees	1,640	1,179
Consolidated investments in equity-accounted investees	**1,640**	**1,179**

Reconciliation of segment revenues

EUR '000	2016	2015
Total revenues for reportable segments	177,023	142,068
Revenue for other segments	6,857	4,778
Elimination of inter-segment revenues	-3,508	-2,248
Unallocated revenue	2,957	917
Total consolidated revenue	**183,329**	**145,515**

Reconciliation of segment profit

EUR '000	2016	2015
Total profit for reportable segments	11,660	10,402
Total profit/loss for other segments	275	-233
Elimination of inter-segment profits and losses	-18	-19
Unallocated loss	-938	-1,119
Consolidated gross profit	**10,979**	**9,031**
Unallocated expenses:		
Marketing and distribution expenses	-413	-412
Administrative expenses	-6,106	-5,026
Other operating income and expenses	-252	340
Consolidated operating profit	**4,208**	**3,933**
Finance income	463	655
Finance costs	-1,088	-4,383
Share of profit of equity-accounted investees	609	226
Consolidated profit before tax	**4,192**	**431**

Reportable segments' unallocated revenue and loss result, to a significant extent, from design and geological surveying which are carried out in both the buildings and the infrastructure segments.

Reconciliation of segment assets

EUR '000	31 December 2016	31 December 2015
Total assets of reportable segments	82,478	73,902
Investments in equity-accounted investees	1,640	1,179
Total assets of other segments	3,074	3,441
Inter-segment eliminations	-1,884	-2,368
Unallocated assets	13,314	13,765
Total consolidated assets	**98,622**	**89,919**

Geographical information

Revenue (EUR '000)	2016	2015
Estonia	169,291	139,495
Ukraine	4,318	4,481
Finland	2,593	1,539
Sweden	7,520	0
Total revenue	-393	0
Total revenue	**183,329**	**145,515**

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Assets based on geographical location* (EUR '000)	2016	2015
Estonia	30,493	27,812
Ukraine	170	0
Total assets	**30,663**	**27,812**

* Comprises investment property, property, plant and equipment, and intangible assets.

Revenue breakdown between markets is based on the location of the customers and the assets.

NOTE 26. Construction contracts in progress

Financial information on construction contracts in progress at the reporting date

Construction contracts in progress from date of commencement of the projects (EUR '000)	31 December 2016	31 December 2015
Contract costs recognised using the stage of completion method	126,498	68,940
Estimated gross profit	8,246	4,069
Contract revenue recognised using the stage of completion method	134,744	72,893
Progress billings	131,689	71,964
Difference between total progress billings and revenue recognised using stage of completion method	**-3,055**	**929**
Of which due from customers (note 9)	7,089	4,095
Of which due to customers (note 20)	4,034	3,166

At the reporting date, retentions receivable under construction contracts totalled 491 thousand euros (31 December 2015: 97 thousand euros) (note 9).

Potential impact of changes in estimates

A 5% increase or decrease in the estimated stage of completion of all construction contracts in progress at the reporting date would have the following impact on the Group's revenue and gross profit for the year:

EUR '000	2016	2015		2016	2015
Change in revenue +5%	9,219	7,945	Change in revenue -5%	-14,706	-21,635
Change in gross profit	552	484	Change in gross profit	-1,085	-1,786

NOTE 27. Cost of sales

EUR '000	2016	2015
Cost of materials, goods and services	153,569	119,083
Personnel expenses	16,702	15,317
Depreciation expense (note 14)	1,914	1,810
Other expenses	165	274
Total cost of sales	**172,350**	**136,484**

In 2016 the Group had, on average, 684 staff (2015: 690) of whom 625 were working under employment contracts, 41 were working under contracts under the law of obligations (excluding self-employed people), and 18 were members of legal persons' management or control bodies (2015: 649, 23 and 18 respectively).

NOTE 28. Administrative expenses

EUR '000	2016	2015
Cost of materials, goods and services	2,211	1,935
Personnel expenses	3,699	2,931
Depreciation and amortisation expense (notes 14 and 15)	34	29
Other expenses	162	131
Total administrative expenses	**6,106**	**5,026**

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NOTE 29. Other operating income and expenses

Other operating income

EUR '000	Note	2016	2015
Gain on sale of property, plant and equipment		143	379
Gain from a bargain purchase (negative goodwill)	7	139	0
Other income		80	85
Total other operating income		**362**	**464**

Other operating expenses

EUR '000	Note	2016	2015
Loss on sale and write-off of property, plant and equipment		0	52
Net loss on recognition and reversal of impairment losses on receivables	32	154	22
Other expenses		460	50
Total other operating expenses		**614**	**124**

Other expenses include the write-down of other receivables of 409 thousand euros, recognised due to the entry into force of the final judgement on the Group's dispute with Teede REV-2 AS over the performance of the Koidula border crossing point contract in 2010. The Group's then venture partner ceased to fulfil its obligations and the Group had to complete the contract on its own. On the whole, the outcome of the litigation which ended in June was positive for Nordecon but some of the Group's claims were dismissed.

NOTE 30. Finance income and costs

Finance income

EUR '000	2016	2015
Interest income on loans provided	454	655
Gain on disposal of an investment in a subsidiary	3	0
Other finance income	6	0
Total finance income	**463**	**655**

Interest income on loans provided includes interest income of 423 thousand euros (2015: 615 thousand euros) on loans provided to related parties (note 35).

Finance costs

EUR '000	2016	2015
Interest expense	681	770
Foreign exchange loss	195	574
Other finance costs	212	3,039
Total finance costs	**1,088**	**4,383**

Other finance costs include a write-down 2,977 thousand euros made in 2015 to the loans provided for the real estate projects of the Group's two Ukrainian associates.

NOTE 31. Income tax expense

EUR '000	%	2016	%	2015
Profit for the year		3,933		174
Income tax expense		-259		-257
Profit before tax		**4,192**		**431**
Income tax using the tax rate of the parent company	0%	0	0%	0
Income tax on dividends distributed by Estonian Group entities	-5.84%	-245	-59.63%	-257
Income tax in foreign jurisdictions	-0.33%	-14	-0.00%	0
Total income tax expense	**-6.17%**	**-259**	**-59.63%**	**-257**

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Under the Estonian Income Tax Act, the profits earned and losses incurred by companies operating in Estonia are not subject to income tax. In 2015, income tax was paid on the dividend distributions of companies registered in Estonia. The amount of tax payable was calculated as 20/80 of the net distribution.

In 2016, the Group's subsidiaries paid a net dividend of 1,081 thousand euros, which gave rise to income tax expense of 245 thousand euros (2015: 288 thousand euros and 72 thousand euros respectively). The share of dividends paid to non-controlling interests amounted to 145 thousand euros (2015: 137 thousand euros).

NOTE 32. Financial instruments and financial risk management

Credit risk

The Group's maximum credit risk exposure at the reporting date

EUR '000	Note	2016	2015
Cash and cash equivalents	8	9,786	6,332
Trade receivables	9	12,905	11,519
Retentions receivable	9	491	97
Receivables from related parties	9	19	211
Loans to related parties	9	10,626	10,183
Other receivables	9	741	1,914
Due from customers for contract work	9	7,089	4,095
Total		**41,657**	**34,351**

Receivables from third parties and loans to related parties are unsecured except for the loan provided to V.I. Center TOV (note 9). According to the Group's assessment, based on a very low share of credit losses, the credit risk of receivables not past due and receivables past due but not written down is low. The Group's customers include predominantly public sector entities and large companies that have adequate creditworthiness. Among credit institutions, the Group's main business partners are Swedbank AS, Nordea Bank AB Estonian branch, DNB Pank AS and SEB AS. Swedbank AS and SEB Pank AS do not have separate Moody's credit ratings. Swedbank AS's parent Swedbank AB, SEB Pank AS's parent Skandinaviska Enskilda Banken AB and Nordea Bank AB all have Moody's long-term credit rating Aa3 and DNB Bank ASA has Moody's long-term credit rating Aa2.

Financial assets by geographical origin at the reporting date

EUR '000	2016	2015
Estonia	39,257	33,108
Ukraine	109	155
Sweden	1,421	627
Lithuania	10	11
Finland	860	450
Total	**41,657**	**34,351**

Ageing of trade receivables and associated impairment allowances at the reporting date

	31 December 2016		31 December 2015	
EUR '000	Trade receivables	Impairment allowance	Trade receivables	Impairment allowance
Not past due	11,935	0	7,368	0
0-30 days past due	350	0	3,234	0
31-180 days past due	580	0	300	0
Over 180 days past due *	122	-82	664	-47
Total	**12,987**	**-82**	**11,566**	**-47**

* Receivables that are more than 180 days past due are not written down if they have contractually fixed settlement schedules that are being adhered to or if they are secured with additional collateral.

Changes in the impairment allowance for receivables

EUR '000	Note	2016	2015
Impairment allowance at 1 January		-47	-26
Impaired items recovered during the year		2	0
Impairment losses recognised during the year		-156	-22
Items written off as uncollectible during the year		119	1
Impairment allowance at 31 December	**9**	**-82**	**-47**

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In 2016, recognition of impairment losses on receivables and recovery of previously impaired items gave rise to a net loss of 154 thousand euros (2015: a net loss of 22 thousand euros) (note 29). Items written down comprise a number of small receivables.

During the year, receivables of 119 thousand euros that had been written down in earlier periods were written off as uncollectible (2015: 1 thousand euros).

Liquidity risk

Payments to be made for satisfaction of financial liabilities (including interest) under contracts in force at the reporting date

EUR '000					31 December 2016
Financial liability*	Carrying amount	Contractual cash flows	Less than 1 year	1-2 years	More than 3 years
Overdraft liabilities (note 16)	7,611	7,776	1,750	6,026	0
Bank and other loans (note 16)	6,051	6,349	2,606	3,740	3
Finance lease liabilities (note 17)	5,715	6,011	2,208	2,321	1,482
Factoring liabilities (note 16)	0	0	0	0	0
Trade payables (note 18)	28,973	28,973	28,875	98	0
Other payables (note 19)	3,485	3,485	3,368	117	0
Total	**51,835**	**52,594**	**38,807**	**12,302**	**1,485**

* Contractual cash flows have been determined based on contract terms (interest rate and maturity date) as at the reporting date.

EUR '000					31 December 2015
Financial liability*	Carrying amount	Contractual cash flows	Less than 1 year	1-2 years	More than 3 years
Overdraft liabilities (note 16)	7,290	7,515	7,515	0	0
Bank and other loans (note 16)	6,723	6,923	4,852	2,031	40
Finance lease liabilities (note 17)	4,657	4,895	1,635	2,427	833
Factoring liabilities (note 16)	2,143	2,157	2,157	0	0
Trade payables (note 18)	20,812	20,812	20,708	104	0
Other payables (note 19)	3,657	3,657	3,561	96	0
Total	**45,282**	**45,959**	**40,428**	**4,658**	**873**

* Contractual cash flows have been determined based on contract terms (interest rate and maturity date) as at the reporting date.

The Group does not expect that the liabilities would be settled before maturity or that cash flows would differ from contractual ones.

At the reporting date the Group had access to the following overdraft and factoring facilities:

- an overdraft facility of 121 thousand euros with an interest rate of the bank's base rate plus 2.7% per year;
- an overdraft facility of 209 thousand euros with an interest rate of the bank's base rate plus 2.0% per year;
- an overdraft facility of 4,599 thousand euros with a fixed interest rate of 4.0% per year;
- an overdraft facility of 307 thousand euros with an interest rate of 6M EURIBOR plus 2.5% per year;
- an overdraft facility of 750 thousand euros with an interest rate of 6M EURIBOR plus 2.5% per year.

In addition to overdraft facilities, the Group had a factoring arrangement with a limit of 3,653 thousand euros for speeding up recovery of receivables with long settlement terms. At the year-end, 3,653 thousand euros of the limit was not in use.

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Financial liabilities by geographical origin at the reporting date

EUR '000	2016	2015
Estonia	50,450	44,894
Ukraine	358	101
Sweden	877	5
Lithuania	1	0
Finland	149	282
Total	**51,835**	**45,282**

In 2016, the Group signed a frame agreement on a reverse factoring arrangement under which subcontractors that do not have sufficient credit standing to obtain a factoring limit from a financing institution may use the Group's limit, which extends to 1,500 thousand euros. At 31 December 2016, 481 thousand euros of this was in use.

Guarantee commitments accounted for off the statement of financial position

Banks have provided the Group with construction-related guarantees of 32,199 thousand euros (2015: 27,374 thousand euros) whose maturities extend to 2021. According to management's estimates, at the reporting date the risk that the guarantees might be called upon was low. In the reporting period and earlier periods (2008-2012 and 2015) no bank guarantees were called upon due to non-performance of obligations under construction contracts. In both 2013 and 2014 one letter of guarantee was enforced in the amount of 154 thousand euros and 25 thousand euros respectively. In both cases the Group was repaid the full amount after warranty work had been completed.

Refinancing of current financial liabilities in 2017

Based on the financing plan in place, the Group believes that in 2017 loan liabilities of 3,591 thousand euros, classified as current items at the reporting date, can be refinanced and that 1,850 thousand euros of the amount can be refinanced for a period exceeding twelve months.

Currency risk

The Group's currency risk exposure from cash and cash equivalents and receivables and liabilities (amounts presented in relevant currency) at the reporting date

	31 December 2016		
'000	EUR	SEK	UAH
Cash and cash equivalents	8,630	10,948	286
Current receivables	22,272	2,930	3,398
Non-current receivables	10,815	0	0
Total	**41,717**	**13,878**	**3,684**
Current liabilities	44,448	13,771	13,826
Non-current liabilities	14,198	0	0
Total	**58,646**	**13,771**	**13,826**
Net exposure	**-16,929**	**107**	**-10,142**

	31 December 2015		
'000	EUR	SEK	UAH
Cash and cash equivalents	6,101	2,001	348
Current receivables	18,539	3,698	4,186
Non-current receivables	10,516	0	0
Total	**35,156**	**5,699**	**4,534**
Current liabilities	47,016	5,481	4,536
Non-current liabilities	6,066	0	0
Total	**53,082**	**5,481**	**4,536**
Net exposure	**-17,926**	**218**	**-2**

The following exchange rates applied against the euro at the reporting date:

	Date	Swedish krona (SEK)	Ukrainian hryvnia (UAH)
1 euro (EUR)	31 December 2016	9.5525	28.2896
1 euro (EUR)	31 December 2015	9.1895	26.2231

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Potential impact of changes in estimates

The Group assessed how the weakening or strengthening of the Group's presentation currency, the euro, against the currencies of foreign currency receivables and liabilities and cash and cash equivalents in the Group's statement of financial position as at the end of the reporting period would affect the Group's profit for the year and equity at the reporting date. The analysis assumed that all other variables remain constant.

EUR '000	31 December 2016	31 December 2015
Strengthening of euro by 10%	31	-2
Weakening of euro by 10%	-38	3

Interest rate risk

The interest rate profile of the Group's interest-bearing financial instruments at the reporting date

EUR '000	2016	2015
Financial instruments with a fixed interest rate		
Financial assets (loans provided to related parties and legal persons) (notes 9 and 35)	10,626	10,183
Financial liabilities (note 16)	1,807	4,490
Net exposure	**8,819**	**5,693**
Financial instruments with a floating interest rate		
Financial assets (cash and cash equivalents) (note 8)	9,786	6,332
Financial liabilities (including finance lease liabilities) (notes 16 and 17)	17,570	16,323
Net exposure	**-7,784**	**-9,991**

Variable components of the floating interest rates of interest-bearing borrowings at the reporting date

	31 December 2016	31 December 2015
3 month EURIBOR	-0.319%	-0.131%
6 month EURIBOR	-0.221%	-0.040%
EONIA	-0.329%	-0.127%
Bank's base rate	0.275%	0.490%

Potential impact of changes in estimates

An increase or a decrease of 100 basis points in the variable components of the interest rates at the reporting date would increase or reduce subsequent periods' interest expense on interest-bearing financial liabilities by 225 thousand euros (2015: 180 thousand euros). The analysis assumes that all other variables remain constant.

Fair value

Fair values and carrying amounts of the Group's financial instruments at the reporting date

		2016		2015
EUR '000	Carrying amount	Fair value	Carrying amount	Fair value
Cash and cash equivalents (note 8)	9,786	9,786	6,332	6,332
Trade receivables (note 9)	12,905	12,905	11,519	11,519
Retentions receivable (note 9)	491	491	97	97
Receivables from related parties (notes 9, 35)	19	19	211	211
Loans to related parties (notes 9, 35)	10,626	10,750	10,183	10,188
Other receivables (note 9)	741	741	1,914	1,914
Overdraft liabilities (note 16)	-7,611	-7,611	-7,290	-7,290
Bank and other loans (note 16)	-6,051	-6,119	-6,723	-6,744
Finance lease liabilities (notes 16, 17)	-5,715	-5,715	-4,657	-4,657
Factoring liabilities (note 16)	0	0	-2,143	-2,143
Trade payables (note 18)	-28,973	-28,973	-20,812	-20,812
Payables to related parties (notes 18, 35)	-936	-936	-1,960	-1,960
Other payables (note 19)	-3,485	-3,485	-3,657	-3,657

The carrying amounts of the Group's short-term financial assets and liabilities do not differ significantly from their fair values. The carrying amounts of long-term floating rate assets and liabilities approximate their fair values because the variable component of the interest rate reflects the change in market interest rates. Based on the fair value measurement inputs, cash and cash equivalents belong to level 1, bank and other loans to level 2 and other receivables and liabilities to level 3 in the fair value hierarchy established in IFRS 13 *Fair Value Measurement*.

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Non-current fixed-interest financial assets and liabilities were discounted using the following interest rates:

Average market interest rate	2016	2015
Loans provided	3%	6%
Loans received*	2.28%	2.38%

* Based on the statistics of the Bank of Estonia (interest rates of loans provided by credit institutions to non-financial institutions).

NOTE 33. Contingent liabilities

Contingent income tax liability

EUR '000	31 December 2016	31 December 2015
Retained earnings	13,091	10,970
Maximum possible income tax liability	-2,618	-2,194
Maximum amount that could be distributed as the net dividend	10,473	8,776

The maximum possible income tax liability has been calculated on the assumption that the net dividend and the resulting income tax expense may not exceed consolidated retained earnings as at the end of the reporting period.

Guarantees and surety commitments

Group entities' commitments under construction contracts and their financial liabilities are secured with guarantees and surety bonds. The guarantees that banks have issued to buyers of construction services are secured with commercial pledges. The guarantees expire within up to five years. The surety bonds have been issued by the parent to secure commitments not recognised in the statement of financial position. Based on historical experience, the realisation probability of the guarantees and surety commitments is remote. Therefore, they have not been recognised as liabilities in the statement of financial position.

Bank guarantees provided

At the reporting date, the guarantees provided by banks for securing Group entities' commitments under construction contracts totalled 32,199 thousand euros (31 December 2015: 27,374 thousand euros).

Surety commitments

Due to the expiry of underlying obligations, at the reporting date the Group had no surety commitments in respect of the obligations of its associates and non-Group third parties. The parent has issued surety bonds to secure its subsidiaries' operating lease commitments not recognised in the statement of financial position of 468 thousand euros (31 December 2015: 430 thousand euros) and other commitments, arising mostly from subcontracts, of 30 thousand euros (31 December 2015: 457 thousand euros).

NOTE 34. Assets pledged as collateral

The Group has secured its financial liabilities with commercial pledges, mortgages and share pledges.

Commercial pledges

At the reporting date, the parent and the subsidiaries had pledged their movable property under commercial pledges which totalled 47,829 thousand euros (31 December 2015: 47,829 thousand euros).

Movable property pledged under commercial pledges does not include cash and cash equivalents, financial assets and assets that can be mortgaged or pledged under other pledges.

Mortgages

At the reporting date, the total value of mortgages encumbering the Group's immovable property (plots and buildings) was 22,192 thousand euros (31 December 2015: 20,467 thousand euros). The parent and the subsidiaries have mortgaged assets of the following classes:

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Line item in the statement of financial position (EUR '000)	31 December 2016	31 December 2015
Inventories	12,800	11,075
Investment property	639	639
Property, plant and equipment (land and buildings)	767	767
Mortgages that cannot be linked to a specific asset class*	7,986	7,986
Total	**22,192**	**20,467**

* The same mortgage encumbers different immovable properties which in the financial statements are reported in different asset classes.

Share pledges

In 2016 and 2015, the Group had secured its loan liabilities by pledging its shares in the following subsidiaries: Järva Teed AS (100%) and Hiiu Teed OÜ (100%).

NOTE 35. 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 the voting power). Related parties include:

- Nordecon AS's parent company AS Nordic Contractors and its shareholders
- Other companies of AS Nordic Contractors group
- Equity-accounted investees (associates and joint ventures) of Nordecon Group
- Members of the board and council of Nordecon AS, their close family members and companies related to them
- Individuals whose shareholding implies significant influence.

Transactions with related parties are conducted on market terms.

The Group's purchase and sales transactions with related parties

EUR '000		2016		2015
Counterparty	Purchases	Sales	Purchases	Sales
AS Nordic Contractors	335	0	456	0
Companies of AS Nordic Contractors group	3	10	3	10
Companies related to owners of AS Nordic Contractors	732	0	713	0
Associates	4,216	42	5,549	112
Companies related to members of the council	130	0	81	0
Total	**5,416**	**52**	**6,802**	**122**

EUR '000		2016		2015
Nature of transactions	Purchases	Sales	Purchases	Sales
Construction services	4,216	0	5,614	0
Transactions with goods	732	0	713	0
Lease and other services	385	48	296	122
Other transactions	83	0	179	0
Total	**5,416**	**48**	**6,802**	**122**

Receivables from and liabilities to related parties at period-end (notes 9 and 18)

	31 December 2016		31 December 2015	
EUR '000	Receivables	Liabilities	Receivables	Liabilities
AS Nordic Contractors	0	11	0	9
Companies of AS Nordic Contractors group – receivables	1	0	0	0
Companies of AS Nordic Contractors group – loans and interest	275	0	263	0
Companies related to owners of AS Nordic Contractors	0	31	0	130
Associates – receivables and liabilities	18	894	211	1,821
Associates – loans and interest	8,637	0	8,344	0
Joint venture – loans and interest	1,714	0	1,576	0
Total	**10,645**	**936**	**10,394**	**1,960**

Receivables from and liabilities to associates result from ordinary business operations and are unsecured. Receivables and liabilities are settled on time. The Group has not written down any receivables from associates.

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Loan principal and accrued interest receivable from related parties (note 32)

EUR '000	Related party	Interest rate	Currency	31 December 2016 Loan	31 December 2016 Of which interest	31 December 2015 Loan	31 December 2015 Of which interest
Kastani Kinnisvara OÜ	Associate	10.0%	EUR	0	0	42	22
Technopolis-2 TOV	Associate	6.5%	EUR	998	213	929	162
V.I. Center TOV	Associate	3.0%	EUR	7,639	568	7,373	325
Unigate OÜ	Joint venture	8.0%	EUR	1,714	261	1,576	144
Nordic Contractors Finance &Leasing		5.0%	EUR	275	25	263	13
Total				**10,626**	**1,067**	**10,183**	**666**
Of which current portion (note 9)				275	25	305	35
Of which non-current portion (note 9)				10,351	1,042	9,878	631

During the period, the Group recognised interest income on loans to associates of 294 thousand euros (2015: 487 thousand euros), on loans to the joint venture of 117 thousand euros (2015: 115 thousand euros) and on a loan to a company of AS Nordic Contractors group of 12 thousand euros (2015: 13 thousand euros) (note 30). The loans provided to related parties are not secured except for the loan provided to V.I. Center TOV (note 9).

Other transactions with related parties

In the reporting period, the Group paid Nõmme Private Education Foundation sponsor support of 115 thousand euros (2015: 52 thousand euros). The foundation is related to a member of the Group's council.

In 2016, the Group received from associates a net dividend of 147 thousand euros (2015: 98 thousand euros). Information on dividends paid by the Group is disclosed in note 22.

Remuneration of the council and the board

In 2016, the service fees of the members of the council of Nordecon AS amounted to 138 thousand euros and associated social security charges totalled 45 thousand euros (2015: 139 thousand euros and 46 thousand euros respectively). Expenses on the provision for performance-related pay, made based on the Group's performance indicators, totalled 47 thousand euros and the provision for associated social security charges amounted to 16 thousand euros (2015: 37 thousand euros and 12 thousand euros respectively).

In 2016, the service fees of the members of the board of Nordecon AS amounted to 350 thousand euros and associated social security charges totalled 116 thousand euros (2015: 322 thousand euros and 106 thousand euros respectively). Expenses on the provision for board members' performance-related pay, made based on the Group's performance indicators, totalled 243 thousand euros and the provision for associated social security charges amounted to 80 thousand euros (2015: 188 thousand euros and 62 thousand euros respectively).

Information on share options granted to the members of the board is disclosed in note 24.

NOTE 36. Litigation and claims

Final judgment on the Group's dispute with Kantauro OÜ

On 26 May 2015, Harju County Court rendered a judgment in the civil matter of Nordecon AS's action against Kantauro OÜ for recovery of debt. Based on an order placed by Kantauro OÜ, Nordecon AS built a shopping centre in Tallinn with a net area 15,000 square metres (Stroomi Keskus). The shopping centre was opened to customers on 4 December 2014 but, regrettably, the developer failed to pay the builder part of the amounts due under the contract.

As Kantauro OÜ did not settle its debt despite repeated reminders, Nordecon AS went to court. Taking into account that Kantauro OÜ did not respond to the action, the court made a judgment by default and satisfied Nordecon AS's claim in full. Kantauro OÜ was ordered to pay Nordecon AS the principal debt of 201 thousand euros and late payment interest accrued by the date the action was filed of 316 thousand euros as well as associated procedure costs. On 1 May 2015, Kantauro OÜ filed a petition against the judgment but on 26 June 2015 the county court issued a ruling by which the petition was denied. Kantauro OÜ paid Nordecon AS the principal debt and late payment interest as ordered by the court and on 13 July 2015 filed an appeal with the circuit court against the ruling by which its petition was denied.

On 31 August 2015, the circuit court annulled the ruling of Harju County Court of 26 June 2015 by which the petition was denied and proceedings were not reopened and referred the case back to the county court for new adjudication. On 7 September 2015, Harju County Court again denied the petition. On 21 September 2015, Kantauro OÜ filed an appeal with the circuit court against the ruling by which its petition was denied. On 21 October 2015, the circuit court annulled the ruling of Harju County Court of 7 September 2015 by which the petition was denied and proceedings were not reopened and again referred the case back to the county court for new adjudication on the petition. On 10 January 2016, the county court again denied the petition. On 11 February 2016, Kantauro OÜ filed an appeal against the ruling of the county court. On 26 February 2016, Nordecon AS submitted its statement on the appeal. On 25 April 2016, Tallinn Circuit Court denied Kantauro OÜ's appeal. On 12 May 2016, Kantauro OÜ filed an appeal with the Supreme Court which on 8 June 2016 did not accept the appeal.

Final judgment on the Group's dispute with Ilmarine Engineering OÜ

On 4 August 2016, the court dispute between Nordecon AS and Ilmarine Engineering OÜ in civil matter No. 2-14-55499 came to an end. The case focused on the question of whether Nordecon AS was obliged to pay AS Ilmarine an additional fee for the execution of Tallinn Seaplane Harbour construction works (Ilmarine Engineering OÜ acquired the claim from AS Ilmarine). The parties had agreed that the additional fee would be paid only if AS Ilmarine executed the works by a specified date. AS Ilmarine breached that obligation as the court established in civil matter No. 2-12-36887 requiring AS Ilmarine to pay a contractual penalty of 28,020 euros. Despite this, the court found in civil matter No. 2-14-55499 that AS Ilmarine was entitled to an additional fee although the contract terms for payment of the additional fee had not been met. Surprisingly the Supreme Court did not accept the cassation appeal filed by Nordecon AS and thus the judgements of Harju County Court of 3 July 2015 and Tallinn Circuit Court of 10 March 2016 which set aside the agreement on the additional fee entered into force. Nordecon AS was ordered to pay an additional fee of 175,132.80 euros along with late payment interest and the procedure costs of Ilmarine Engineering OÜ. Nordecon AS has complied with the court order.

Judgment on dispute regarding the Aruvalla-Kose procurement contract

On 17 November 2014, venture partners Nordecon AS and Ramboll Eesti AS filed a statement of claim against the state. i.e., Republic of Estonia, in connection with the contract for the procurement of the design and construction of the Aruvalla-Kose section of road E263. The customer, the National Road Administration, has accepted all construction works related to the Aruvalla-Kose road section and confirmed that all works were completed on time and the outcome meets the construction standards and regulations. The dispute relates to additional costs incurred because a method for measuring the aggregate filtration module (factor), which has a strong impact on road construction, was prohibited by the National Road Administration who unilaterally changed the contract performance terms, as well as the approvals it had previously granted, approximately a year after the conclusion of the contract. Nordecon AS believes that the National Road Administration as a representative of a professionally operating state must act properly and unequivocally and observe the principles of good faith. Estonia's economic environment and companies need assurance that the state acts properly, giving an example for the private sector, and observes the rules it has accepted and implemented on the conclusion of a contract throughout the performance of that contract. The contract for the construction of the Aruvalla-Kose road section was signed in spring 2011 and until August 2012 construction work was done using the filtration module measurement method (Sojuzdornii) specified in the work programme required by the contract which the National Road Administration had unconditionally accepted. However, in 2012 the customer, the National Road Administration, changed the filtration measurement methodology and also applied it to the contract which had been signed earlier, ignoring the work programme it had previously accepted. In their statement of claim, Nordecon AS and Ramboll Eesti AS request compensation for unforeseen costs incurred due to the change of the filtration measurement methodology of 3,495,604.70 euros plus late payment interest.

On 14 September 2016, Harju County Court rendered a judgement in which it found that Nordecon AS's claim was unfounded, dismissed the action and determined that the procedure costs are to be borne by Nordecon AS. On 13 October 2016, Nordecon AS filed an appeal with the circuit court. The circuit court changed the reasoning of the judgement rendered by Harju County Court substantially but dismissed the appeal by a ruling issued on 23 December 2016. The ruling has no impact on the Group's financial results. On 23 January 2017, Nordecon AS lodged a cassation appeal with the Supreme Court in which it challenged the ruling of Tallinn Circuit Court of 23 December 2016.

NOTE 37. Events after the reporting period

Liquidation of a subsidiary

The liquidation of Instar Ukraine TOV was completed on 6 February 2017. The company was dormant.

Merger of group entities

At a meeting held on 14 October 2016, the Group's council decided to approve the merger of Nordecon AS's wholly-held subsidiaries Järva Teed AS and Hiiu Teed OÜ and Nordecon AS's road maintenance and machinery division. The purpose of the merger is to bring the Group's road maintenance, heavy machinery, and mining segments under one management team and thereby eliminate various duplicate operations, streamline the management structure and clarify areas of responsibility. In addition to structural streamlining, the merger will allow to harmonise procedures and quality control systems, which will enhance operating efficiency and improve the Group's overall competitiveness. The merger of different support services will also result in cost savings. The merged entity will continue to operate in all the same segments, such as road maintenance and construction, land improvement, surface dressing, mining, manufacture of traffic control devices, and lease of heavy machinery.
The merger and the new business name, AS Tariston, were entered in the Commercial Register on 6 January 2017.

NOTE 38. Parent company's primary financial statements

Under the Estonian Accounting Act, the primary financial statements of the consolidating entity (parent company) have to be disclosed in the notes to the consolidated financial statements. In preparing the primary financial statements of the parent, the same accounting policies are used as in preparing the consolidated financial statements, except that investments in subsidiaries, joint ventures and associates are measured at cost less any impairment losses.

Statement of financial position

EUR '000	31 December 2016	31 December 2015
ASSETS		
Current assets		
Cash and cash equivalents	4,674	4,754
Trade and other receivables	15,550	14,067
Prepayments	1,061	1,064
Inventories	12,775	14,610
Total current assets	**34,060**	**34,495**
Non-current assets		
Investments in subsidiaries	12,343	11,971
Investments in associates and joint ventures	854	464
Investment property	1,380	327
Trade and other receivables	13,664	12,234
Property, plant and equipment	7,336	5,340
Intangible assets	8,205	8,205
Total non-current assets	**43,782**	**38,541**
TOTAL ASSETS	**77,842**	**73,036**
LIABILITIES		
Current liabilities		
Borrowings	3,644	12,523
Trade payables	19,340	15,493
Taxes payable	1,163	1,032
Other payables	8,865	9,595
Deferred income	3,027	1,987
Provisions	471	504
Total current liabilities	**36,510**	**41,134**
Non-current liabilities		
Borrowings	9,764	1,842
Other payables	21	0
Provisions	739	623
Total non-current liabilities	**10,524**	**2,465**
TOTAL LIABILITIES	**47,034**	**43,599**
EQUITY		
Share capital	19,720	20,692
Own (treasury) shares	-1,550	-1,582
Share premium*	1,133	1,116
Statutory capital reserve	2,534	2,534
Retained earnings	8,971	6,677
TOTAL EQUITY	**30,808**	**29,437**
TOTAL LIABILITIES AND EQUITY	**77,842**	**73,036**

* The share premium recognised in the parent's statement of financial position is 569 thousand euros larger than in the Group's statement of financial position. This is attributable to the parent's merger with the subsidiary Nordecon Infra AS in 2010. The subsidiary's statement of financial position included share premium acquired on an intra-Group business combination of entities under common control. In the consolidated statement of financial position that portion of share premium (569 thousand euros) has been eliminated due to the above reason.

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Statement of comprehensive income

EUR '000	2016	2015
Revenue	123,335	101,756
Cost of sales	-116,870	-95,262
Gross profit	**6,465**	**6,494**
Marketing and distribution expenses		
Administrative expenses	-323	-343
Other operating income	-3,810	-3,358
Other operating expenses	106	155
Operating profit	-549	-34
	1,889	**2,914**
Finance income		
Finance costs	2,122	1,119
Net finance costs	-794	-2,646
	1,328	**-1,527**
Profit before income tax	**3,217**	**1,387**
Income tax expense	**0**	**-185**
Profit for the year	**3,217**	**1,202**
Total comprehensive income for the year	**3,217**	**1,202**

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Statement of cash flows

EUR '000	2016	2015
Cash flows from operating activities		
Cash receipts from customers[5]	145,194	125,831
Cash paid to suppliers[6]	-128,626	-108,802
Cash paid to and for employees	-10,559	-10,940
VAT paid	-3,075	-3,223
Net cash from operating activities	**2,934**	**2,866**
Cash flows from investing activities		
Paid on acquisition of non-current assets	-54	-288
Proceeds from sale of non-current assets	39	111
Capital contributions to subsidiaries and joint ventures	-435	-472
Loans provided	-1,278	-274
Repayment of loans provided	591	170
Interest received	609	366
Dividends received	1,081	150
Net cash from/used in investing activities	**553**	**-237**
Cash flows from financing activities		
Proceeds from loans received	2,143	868
Repayment of loans received	-1,774	-2,703
Payment of finance lease principal	-1,619	-1,032
Interest paid	-471	-515
Dividends paid	-923	-923
Reduction of share capital	-923	0
Other payments made	0	2
Net cash used in financing activities	**-3,567**	**-4,303**
Net cash flow	**-80**	**-1,674**
Cash and cash equivalents at beginning of year	4,754	6,428
Decrease in cash and cash equivalents	-80	-1,674
Cash and cash equivalents at end of year	**4,674**	**4,754**

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

[6] Line item *Cash paid to suppliers* includes VAT paid.

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Statement of changes in equity

EUR '000	Share capital	Own shares	Share premium	Statutory capital reserve	Retained earnings	Total
Balance at 31 December 2014	**20,692**	**-1,582**	**1,116**	**2,534**	**6,398**	**29,158**
Profit for the year	0	0	0	0	1,202	1,202
Dividend distribution	0	0	0	0	-923	-923
Balance at 31 December 2015	**20,692**	**-1,582**	**1,116**	**2,534**	**6,677**	**29,437**
Carrying amount of interests under control and significant influence	-		-	-	-	-12,435
Value of interests under control and significant influence under the equity method	-		-	-	-	7,554
Adjusted unconsolidated equity at 31 December 2015	**-**		**-**	**-**	**-**	**24,556**
Balance at 31 December 2015	**20,692**	**-1,582**	**1,116**	**2,534**	**6,677**	**29,437**
Profit for the year	0	0	0	0	3,217	3,217
Dividend distribution	0	0	0	0	-923	-923
Reduction of share capital	-972	32	17	0	0	-923
Balance at 31 December 2016	**19,720**	**-1,550**	**1,133**	**2,534**	**8,971**	**30,808**
Carrying amount of interests under control and significant influence	-		-	-	-	-13,196
Value of interests under control and significant influence under the equity method	-		-	-	-	8,070
Adjusted unconsolidated equity at 31 December 2016	**-**		**-**	**-**	**-**	**25,682**

Statements and signatures of the board and the council

Statement by the board

The board of Nordecon AS acknowledges its responsibility for the preparation of the Group's consolidated financial statements as at and for the year ended 31 December 2016 and confirms that:

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

Jaano Vink
Chairman of the Board
20 April 2017

Avo Ambur
Member of the Board
20 April 2017

Erkki Suurorg
Member of the Board
20 April 2017

Statement by the council

The council has reviewed the annual report prepared by the board, which consists of the directors' report and the consolidated financial statements, and the accompanying independent auditors' report and profit allocation proposal and has approved the annual report for presentation to the shareholders' general meeting.

Toomas Luman
Chairman of the Council
26 April 2017

Andri Hõbemägi
Member of the Council
26 April 2017

Vello Kahro
Member of the Council
26 April 2017

Sandor Liive
Member of the Council
26 April 2017

Meelis Milder
Member of the Council
26 April 2017

Independent Auditors' Report

To the shareholders of Nordecon AS

Opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of Nordecon AS and its subsidiaries (collectively, the Group) as at 31 December 2016, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

What We Have Audited

We have audited the Group's consolidated financial statements, which are set out on pages 43 to 102 of Nordecon AS Annual Report. The consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2016;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated of statement of cash flows for the year then ended;
- the consolidated statement of changes in equity for the year then ended; and
- the notes to the consolidated financial statements, comprising significant accounting policies and other explanatory information.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (Estonia). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Estonia, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Audit Scope

Because we are solely responsible for our audit opinion, we are also responsible for the direction, supervision and performance of the group audit. In this respect, we determined the type of work to be performed on the financial information of the entities (components) within the Group based on their financial significance and/or other risk characteristics.

We, as group auditors, determined seven of the Group's 27 entities to be significant Group components. All of the significant components are located in Estonia. A full-scope audit was performed for five of these components: Nordecon AS, Nordecon Betoon OÜ, AS Eston Ehitus, AS Järva Teed and OÜ Eurocon Vara. For the remaining two significant components (due to the risk characteristics), OÜ Kalda Kodu and OÜ Eurocon, we conducted audits of selected account balances at Group level as well as statutory reviews in accordance with Estonian legislation.

In the case of the following components, we used the results of statutory audits and reviews to obtain audit evidence for the group audit:

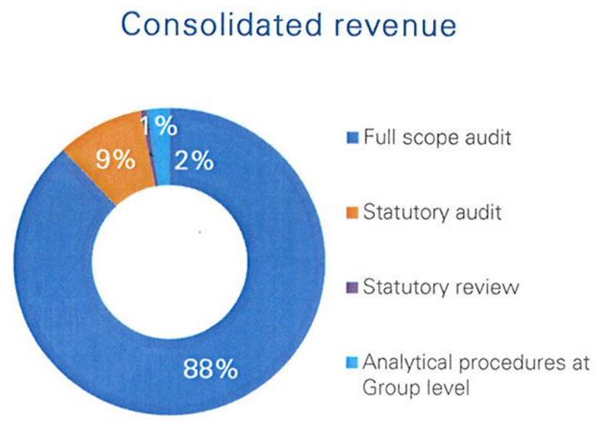
- for OÜ Kaurits and OÜ Hiiu Teed - the results of the statutory audits conducted in accordance with Estonian legislation;
- for OÜ Magasini 29 - the results of the statutory review conducted in accordance with Estonian legislation;
- for Estcon Oy - the results of the statutory audit conducted in accordance with Finnish legislation; and
- for SWENCN AB - the results of the statutory audit conducted in accordance with Swedish legislation.

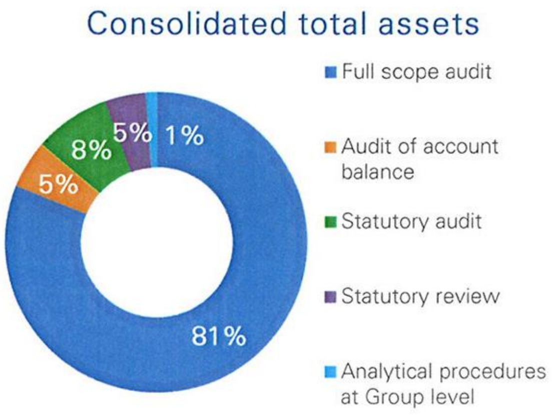
These components were not significant from the point of view of the Group, but the statutory audit or review was required by local legislation.

For the remaining 15 non-significant components, we performed analytical procedures at Group level to re-examine our assessment that there were no significant risks of material misstatement within them.

We also performed procedures over the consolidation process at Group level.

Coverage of consolidated revenue and consolidated total assets with procedures performed:





The audit work on the financial information of Nordecon AS and the audits of selected account balances in respect of OÜ Kalda Kodu and OÜ Eurocon were performed by the KPMG group audit team in Estonia. The work over the financial information of the remaining components was performed by KPMG component auditors in Estonia and Finland, and non-KPMG component auditors in Sweden. The group audit team instructed component auditors about the areas to be covered and determined the information required to be reported to the group audit team. We had regular communication with component auditors and executed audit file reviews, where necessary.

By performing the above procedures over the Group entities, together with additional procedures at the Group level, we have been able to obtain sufficient and appropriate audit evidence to form an opinion on the consolidated financial statements as a whole.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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Valuation of long-term loans provided to the Ukrainian associates

Refer to notes 5 and 9 of the consolidated financial statements.

The key audit matter	How the matter was addressed in our audit
The consolidated statement of financial position as at 31 December 2016 includes loans provided to the Group's Ukrainian associates, with the carrying amount of 8,637 thousand euros. The balance consists of loans to Techopolis-2 TOV of 998 thousand euros and loans to V.I. Center TOV of 7,639 thousand euros. The loans were provided for the acquisition and development of properties (plots of land) near Kiev. The Group and the co-owners of V.I. Center TOV have created mortgages on the properties owned by the investee in order to safeguard their investment in the land plot and secure their loans. The ability of the Ukrainian associates to repay these loans depends on the realization of the development projects; and therefore, the value of the loans depends on the fair value of the underlying properties. Ukraine's political and economic situation continues to be unstable and the events in the country may have a significant impact on the recoverability of the loans and; therefore, on the Group's financial results as explained in note 5. Given the above, at the end of the financial year, the Group's management estimated the loans' recoverable amounts to assess whether these had decreased below their carrying amounts. Note 9 explains that the assessment was made by reference to the fair values of the development projects to be carried out on the properties as estimated by external appraisers engaged by the Group. The key valuation inputs included the projects' expected future cash flows (rental prices), discount rates, vacancy rates, and time factors of the realisation of the development projects (delays in completion). Based on the results of the appraisals, the Group's management did not recognise any impairment losses for the loans in 2016. We assessed this area to be a key audit matter as the recoverable amounts of the loans are highly sensitive to the changes in the key valuation assumptions applied and may thus	In this area, we conducted, among others, the following audit procedures: • We assessed the valuation reports prepared by the external appraisers engaged by the Group, considering the valuation methodology applied as well as the appraisers' competence, skills and objectivity; • Assisted by our own valuation specialists, we assessed the valuation model for mathematical accuracy and appropriateness of the model against the requirements of the relevant financial reporting standards; • We challenged the reasonableness of the key valuation assumptions and estimates applied by the appraisers by reference to our understanding of the Group's operations and of the economic situation in Ukraine. In the areas where the appraisers had relied on market-based inputs, such as the rental prices, vacancy and discount rates, we compared the inputs with the data available from external sources (such as publicly available market research by real estate appraisal agencies). We also made alternative calculations for the discount rate (WACC – weighted average cost of capital), based on available market data, and compared it to the rate used in the valuation model. • We carried out an analysis of the sensitivity of the valuations to changes in the key model inputs, including the discount rate and the time of completion of the development projects; • We assessed the adequacy of the related disclosures in the consolidated financial statements (including in respect of the sensitivity of the valuation results to changes in the key assumptions).

KPMG

have a material effect on the Group's financial results.	

Valuation of goodwill

Refer to notes 3 and 15 of the consolidated financial statements.

The key audit matter	How the matter was addressed in our audit
The Group's consolidated statement of financial position as at 31 December 2016 includes goodwill in the amount of 14,176 thousand euros, further discussed in note 15. The goodwill has been allocated to five cash-generating units (CGUs). Relevant financial reporting standards require that goodwill is tested, at least annually, for impairment. The assessment of the recoverability of goodwill requires significant judgment in determining the future performance of the CGUs to which goodwill was allocated. The recoverable amount of goodwill is determined by calculating the value in use of the relevant CGUs using the discounted cash flow method whose key inputs such as the discount rate, the expected future revenue and gross margin depend on management's significant judgment and estimates. The determination of whether the internal and external inputs used by the Group to calculate the recoverable amount of goodwill were based on reasonable and appropriate estimates required our particular attention in the audit. Even small changes in the inputs may have a significant impact on the estimate of the recoverable amount of goodwill and, thus, also on the Group's financial results.	In this area, we conducted, among others, the following audit procedures: • We assessed whether management had appropriately allocated assets to CGUs based on our understanding of the Group's operations; • Assisted by our own valuation specialists, we assessed the model used for calculating the recoverable amount of goodwill against the requirements of the relevant financial reporting standards, and made alternative calculations for the discount rates (WACC) applied in the calculations based on available market data, and compared it to the rates used in the valuation model; • Where the Group had relied on market-based inputs, such as for the loan and rental agreements and discount rates applied, we compared the inputs with the data available from external sources (such as bank confirmations and publicly available market research); • We compared the data used in the model with the budgets and strategy approved by the Group's council and assessed the historical accuracy of the Group's budgeting process by comparing recent years' actual revenue and gross margin to the budgeted amounts; • We evaluated the assumptions and estimates applied in the model (such as the terminal period, working capital investments and capital expenditures) used for calculating the recoverable amount of goodwill, considering our understanding of the Group's operations and the economic environment; • We assessed the adequacy of the related disclosures in the consolidated financial statements, including those in respect of the sensitivity of the valuation results to changes in the key assumptions.

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Carrying amounts of plots of land acquired for development

Refer to notes 3 and 11 of the consolidated financial statements.

The key audit matter

The Group has plots of land acquired for development. As at 31 December 2016, the carrying amount of the plots was 12,671 thousand euros. In the consolidated statement of financial position, the plots are classified as inventories and, as such, are carried at the lower of cost and net realisable value.

The plots are located in different parts of Estonia and in the reporting period the number of market transactions involving undeveloped plots was relatively low. Therefore, externally available data for determining the market value of the plots was limited.

The Group measured the net realisable value of the plots acquired for development with the assistance of external real estate appraisers who determined the market values of the plots by applying the sales comparison model or, where this could not be applied, using the residual value method. The residual value method relies on the estimated revenue from the sale of the development project planned on the property after the deduction of the estimated construction and other development costs and the developer's reasonable profit margin.

We assessed this area to be a key audit matter because even relatively small changes in the key inputs of the sales comparison model and the residual value model may have a significant impact on the net realisable value of the plots and, thus, also on the Group's financial results.

How the matter was addressed in our audit

In this area, we conducted, among others, the following audit procedures:

- Assisted by our own valuation specialists, we performed the following procedures:
  - Where the Group had used external real estate appraisers for the valuation of the plots, we assessed the appraisers' competence and objectivity. We also evaluated the appropriateness of the methodology used by the appraisers against relevant financial reporting standards, and against those applied by other appraisers for similar properties. We also considered the reasonableness of the key valuation inputs applied, including the characteristics and value of comparable plots used in the valuation.
  - Where the fair value of the plots was not estimated by the external appraisers due to the insufficient number of comparable market transactions, our valuation specialists assisted with assessing the appropriateness of the residual value model against relevant financial reporting standards and the key valuation inputs applied. Among other things, we compared the plots' book value per square metre with relevant market data, and the apartment sales prices per square metre used in the model with those of comparable assets in the same areas.
- We compared the construction prices per square metre used in the model with those of comparable projects. We also analysed the structure of the construction costs of these plots and compared it to historical data;
- We analysed the discount rates applied and the rate of return expected by the shareholders. We also compared the discount rates with external information (such as publicly available market research by real estate appraisal agencies) and challenged the underlying assumptions based on our knowledge about the Group.
- We carried out an analysis of sensitivity of the valuation outcome to changes in the key inputs, including changes in the expected sales prices of apartments;

	• We assessed the adequacy of the related disclosures in the consolidated financial statements, including those in respect of the sensitivity of the valuation results to changes in the key inputs.

Fair value of investment properties

Refer to notes 3 and 13 to the consolidated financial statements.

The key audit matter	How the matter was addressed in our audit
As at 31 December 2016, the amount of the Group's investment properties, carried under the fair value model, totalled 4,929 thousand euros and comprised four plots of land in different parts of Estonia. The Group applies the discounted cash flow method in determining the fair values of the properties. This requires management to make significant and subjective estimates and assumptions. The key valuation inputs are discount rates, commercial premises' vacancy rates, rental prices, the rate of return expected by shareholders and estimated construction prices. The fair value measurements are highly sensitive to changes of the key inputs used. Even relatively small changes in those inputs may have a significant effect on the fair value of the investment properties and, consequently, on the Group's financial results. Therefore, we assessed the valuation of investment properties to be a key audit matter.	In this area, we conducted, among others, the following audit procedures: • Assisted by our own valuation specialists, we: - Assessed the model used for measuring the fair values of the Group's investment properties against the requirements of relevant financial reporting standards, and against those applied by other appraisers for similar properties; - Assessed the reasonableness of the key valuation inputs applied in the model. We compared the book value of the properties per square metre with relevant market data, and the rental prices used in the model with those for similar properties in the same areas. We also challenged the discount rates applied by reference to our independent expectations developed based on our experience with the Group's industry, and challenged the underlying assumptions in the model (such as vacancy rates and exit yield) based on our knowledge of the Group and its operations. • We compared the construction prices per square metre used in the model with those of comparable properties; • We carried out an analysis of the sensitivity of the model to changes in the key inputs, including changes in construction prices, rental prices and the discount rate; • We assessed the adequacy of the related disclosures in the consolidated financial statements, including those in respect of the significant judgments and the sensitivity of the outcomes of the fair value measurements to changes in the key assumptions.

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Other Information

Management is responsible for the other information. The other information comprises the Management report, but does not include the consolidated financial statements and our auditors' report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (Estonia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with International Standards on Auditing (Estonia), we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors´ report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Tallinn, 20 April 2017

Andris Jegers

Certified Public Accountant, Licence No. 171

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Profit allocation proposal

Distributable profit of Nordecon AS

	EUR '000
Retained earnings of prior years	10,047
Profit for 2016	3,044
Total distributable profit at 31 December 2016	**13,091**

The board makes the following proposals:

1. To distribute a dividend of 0.045 euros per share (1,384 thousand euros);
2. Not to make any transfers to the capital reserve.

Jaano Vink	Chairman of the Board	20 April 2017
Avo Ambur	Member of the Board	20 April 2017
Erkki Suurorg	Member of the Board	20 April 2017