



 NORDECON

2017

# GROUP ANNUAL REPORT 2017

<b>Business name</b>	Nordecon AS
<b>Registry number</b>	10099962
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<b>Domicile</b>	Republic of Estonia
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<b>E-mail</b>	nordecon@nordecon.com
<b>Corporate website</b>	www.nordecon.com
<b>Core business lines</b>	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)
<b>Financial year</b>	1 January 2017 – 31 December 2017
<b>Council</b>	Toomas Luman (chairman of the council), Andri Hõbemägi, Vello Kahro, Sandor Liive, Meelis Milder
<b>Board</b>	Gerd Müller (chairman of the board), Priit Luman, Maret Tambek, Ando Voogma
<b>Auditor</b>	KPMG Baltics OÜ



# CONTENTS

<b>Nordecon Group at a glance</b>	<b>6</b>
<b>Letter from chairman of the council</b>	<b>9</b>
<b>Group chief executive's letter</b>	<b>10</b>
<b>Directors' report</b>	<b>18</b>
Strategic agenda for 2016-2020	19
Corporate social responsibility focus topics	20
Market trends	21
Description of the main risks	24
Business and financial review	27
Quality service and customer experience	36
Employees and personnel expenses	38
Work safety	43
Suppliers and subcontractors	46
Environmental impacts	47
Giving back to society	51
Governance	53
Corporate governance report	57
Share and shareholders	66
 <b>Consolidated financial statements</b>	 <b>73</b>
Consolidated statement of financial position	73
Consolidated statement of comprehensive income	74
Consolidated statement of cash flows	76
Consolidated statement of changes in equity	77
NOTE 1. General information about the Group	78
NOTE 2. Statement of compliance and basis of preparation	78
NOTE 3. Significant accounting policies	81
NOTE 4. New standards, amendments and interpretations	94
NOTE 5. Financial risk management	96
NOTE 6. Group entities	102
NOTE 7. Changes in Group structure	104
NOTE 8. Cash and cash equivalents	104
NOTE 9. Trade and other receivables	105
NOTE 10. Prepayments	107
NOTE 11. Inventories	107

# CONTENTS

NOTE 12. Investments in equity-accounted investees	108
NOTE 13. Investment property	110
NOTE 14. Property, plant and equipment	111
NOTE 15. Intangible assets	112
NOTE 16. Borrowings	116
NOTE 17. Finance and operating leases	118
NOTE 18. Trade payables	119
NOTE 19. Other payables	119
NOTE 20. Deferred income	119
NOTE 21. Provisions	119
NOTE 22. Equity	120
NOTE 23. Earnings per share	121
NOTE 24. Share-based payments	121
NOTE 25. Segment reporting	122
NOTE 26. Construction contracts in progress	126
NOTE 27. Participation in joint operations	126
NOTE 28. Cost of sales	126
NOTE 29. Administrative expenses	127
NOTE 30. Other operating income and expenses	127
NOTE 31. Finance income and costs	127
NOTE 32. Income tax expense	128
NOTE 33. Financial instruments and financial risk management	128
NOTE 34. Contingent liabilities	133
NOTE 35. Assets pledged as collateral	133
NOTE 36. Transactions with related parties	134
NOTE 37. Litigation and claims	136
NOTE 38. Events after the reporting period	137
NOTE 39. Parent company's primary financial statements	138
Statements and signatures of the board and the council	142
Independent auditors' report	144
Profit allocation proposal	153
GRI content index	155



RECONSTRUCTION OF TÄHETORNI INTERSECTION ON KM 11.3 OF NATIONAL ROAD NO. 8 TALLINN-PALDISKI	8
---	---



RECONSTRUCTION OF LOGI STREET AND CONSTRUCTION OF ACCESS POINTS AND WAITING AREAS IN THE OLD CITY HARBOUR	23
---	----



RECONSTRUCTION OF THE BUILDING OF THE UGALA THEATRE	30
---	----



OFFICE AND COMMERCIAL COMPLEX VIIMSI ÄRITARE	39
--	----



RENOVATION OF THE MACHINERY HALL OF THE HISTORICAL LUTHER PLYWOOD FACTORY	44
---	----



RESIDENTIAL AND COMMERCIAL BUILDINGS AT ROTERMANNI 18 IN TALLINN	49
--	----



APARTMENT BUILDINGS AT VIRBI 8 AND 10 IN TALLINN	55
--	----



APARTMENT BUILDINGS WITH COMMERCIAL SPACE AT KOPLI 4A AND 6 IN TALLINN	64
--	----



EXTENSION TO THE KOHTLA-JÄRVE WASTEWATER TREATMENT PLANT	70
--	----



EXTENSION TO THE PRODUCTION BUILDING OF AS METAPRINT	75
--	----



CONSTRUCTION OF THE KEHRA COGENERATION PLANT	83
--	----



TERRACED HOUSES IN TABASALU (PHASES 1-2)	91
--	----



APARTMENT BUILDINGS AT HANE 2 AND 2A IN TALLINN	98
---	----



HARMET OÜ'S MODULAR BUILDINGS PRODUCTION FACILITY	106
---	-----



CONSTRUCTION OF THE "ATHENS CLASSROOM" FOR ROCCA AL MARE SCHOOL	114
---	-----



BRF STYRMANNEN 49	124
-------------------	-----



BRF SICKLAÖN 10	135
-----------------	-----



# 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 environmental 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.

# Key figures for 2017

€231M

Revenue

26%

Revenue growth, year on year

€144M

Order book at the year-end

€211M

Value of new contracts signed

127

Projects delivered to customers

735

Employees

17/0

Accidents at work/Fatal accidents at work (incl. subcontractors)

0

Environmental pollution, discrimination and corruption incidents

## Awards and recognition

In 2017, Nordecon was recognised for its achievements and received a number of prominent awards. For example:

- Among buildings renovated by Nordecon AS, both the Ugala theatre and the machinery hall of the historical Luther plywood factory were considered worthy of the National Heritage Board Award 2017.
- In an attractive employers survey conducted by Instar EBC in 2017, engineering students elected Nordecon AS the second most attractive employer in Estonia.
- At the opening of an extension to the Tapa military base in October 2017, minister of defence Jüri Luik awarded the Ministry of Defence Silver Pin, among others, to Nordecon AS's project manager Priit Murmann and site manager Lauri Kitsing and letters of thanks to six builders including three from Nordecon AS: project manager Mikk Laur, site manager Peep Rebina and site manager Mati Okas.
- Nordecon AS's purchasing manager Matti Luik and SWENCN OÜ's budget specialist Tõnis Alvet were on the Tallinn University of Technology four-member team that reached the EBEC Grand Final held at the beginning of August in Brno, the Czech Republic. To reach the final event, the team won both the national EBEC round held in Tallinn at the end of 2016 and the regional EBEC round held in Yekaterinburg, Russia, in spring 2017.





## RECONSTRUCTION OF TÄHETORNI INTERSECTION ON KM 11.3 OF NATIONAL ROAD NO. 8 TALLINN-PALDISKI

**Location:** Tallinna, Harku- and Saue parish, Harju county  
**Customer:** Estonian Road Administration  
**Architect:** OÜ Keskkonnaprojekt  
**Construction period:** August 2016 – June 2017  
**Contractor:** Nordecon AS  
**Project manager:** Rait Kärner





## Letter from chairman of the council

Against the backdrop of robust construction market growth, the year 2017 was somewhat mixed for Nordecon. The rise of the construction sector, which followed the upswing in Estonian companies' revenues, profits and capital expenditures with the usual time lag, also boosted Nordecon's sales. The Group generated revenue of 238 million euros, our third-largest figure since 2008 and 2007. A comparison with those years is not accidental as there is increasing public concern about the possibility that the construction and real estate sectors could again be overheating. We find that this time both public and private demand for construction services is more broad-based and funded by resources created within the Estonian economy, not imported foreign financing. Having said that, it is true that in some areas of housing construction soaring consumer demand has created a labour shortage.

The latter factor in combination with customers' higher requirements to housing construction quality have put additional pressure on builders' profit margins. In 2017, the Group's profit remained well below target as well as the expectations of the controlling shareholder both in terms of volume and margins. As much as we would like to attribute this to the above objective external factors, we also need to take a look at the internal ones. Identifying and assessing risks in both the budgeting and contract signing phase and planning and observing the performance schedule are the bedrocks of all successfully completed construction projects. The council has given the Group's management clear instructions to restore the Group's expected profitability.

As a shareholder I am pleased that we continued to make distributions to Nordecon's shareholders as planned, increasing the total pay-out consisting of a dividend and a share capital reduction to 9 cents per share (2016: a total pay-out of 6 cents per share), which makes the dividend yield 6.8% based on the share price at the beginning of 2017. Furthermore, in the last quarter of the year we decided to use exceptional income from the disposal of an investment to distribute an additional dividend of 6.5 cents per share. Nordecon AS wishes to be a company that makes distributions to shareholders. This policy is underpinned by our long-term financial plan where the Group's working capital and investment needs and debt and equity capital providers' interests and expectations have to be in balance.

In 2017, there was an important change in the organisation of Nordecon AS: the chairman of the board changed. I would like to take this opportunity to once again thank Jaano Vink for his 15-year-long service at the Group. Within that time there were several pivotal events: the creation of the Group as a whole, the listing of Nordecon AS, the challenges of the economic crisis and the shift in the Group's strategic international focus from the Baltic to the Scandinavian region. At the same time, I am very happy to welcome the new chairman of the board Gerd Müller. With strong leadership experience from outside the construction sector, he is the right man to steer Nordecon through new challenges. As we know – in the construction business there is no lack of them. Good luck to Gerd and his new board!

Toomas Luman  
Chairman of the Council



## Group chief executive's letter

The main factors that influenced the Group's activities and performance in 2017 were strong economic growth and a steep rise in construction volumes in Estonia and the expansion of operations and the net result of work completed in Sweden.

After years of stagnation, construction activity in Estonia grew rapidly, which could partly be anticipated based on order book expansion at the end of 2016. Still, a 23% upturn astonished market participants. At present, there is no reason to expect that growth would continue at the same rate. In 2017, construction volumes were boosted by overall economic growth and high consumer confidence, which supported both large-scale investments in the housing market and the development of commercial real estate. Moreover, after years of decline the infrastructure segment including road construction, that is basically all segments, turned to a rise, which could be expected in the favourable economic environment.

Nordecon's sales growth was comparable to that of the market: the Group's revenue grew by 26% to 231 million euros of which 94% was generated in Estonia. In general, we maintained a balance between commercial buildings, residential buildings and infrastructure assets but consistent with market trends we achieved the strongest growth in housing construction. Nordecon's capability to offer a broad range of construction services is evidenced by the diversity of work delivered: from the construction of the Paldiski road-Tähetorni street intersection and an extension to the Kohtla-Järve wastewater treatment plant to the reconstruction of the Ugala theatre, the construction of a residential and commercial building in the Rotermann quarter and the renovation of the machinery hall of the historical Luther plywood factory. The latter as well as the amphitheatre-style outdoor classroom built for the Rocca al Mare school have been acclaimed by the wider public as well as the professional association.

Besides a rise in work, rapid volume growth put significant pressure on the cost of materials and subcontractors' services. In the Estonian market, there is currently high demand for qualified finishing and other special works specialists because rising housing construction volumes have pushed up relevant demand and prices. However, rapid price increases affect completion dates and costs, particularly in the case of large-scale projects where the construction period is longer. In 2016 and 2017 housing construction was the fastest-growing segment in Nordecon's portfolio. Thus, developments in the subcontracting market in combination with our expansion in the Swedish market and weaker than expected results of our Swedish projects lowered our gross margin to 3.8%.

Foreign operations are part of the Group's long-term strategy and support the Group's balanced development. The year 2017 was our second full year in the Swedish market where we offer the services of a general contractor as outlined in our strategy. We have made substantial investments in people and building a partner network to grow into a local market player. In 2017, we completed the first

two buildings and continued work on the third one. The initial start-up phase is coming to an end and our objective is to translate the experience and knowledge gained into a positive result for 2018. Our business volumes in Finland and Ukraine remained similar to the year before but profitability improved considerably.

We expect that in 2018 economic growth will keep competition and pricing pressures high. The expansion in construction volumes will halt only if soaring demand triggers a significant rise in construction prices. At Nordecon, we will focus on enhancing our professional expertise, improving our design capabilities and maintaining a balanced construction portfolio.

I thank all our employees for their contribution to the development of the Group, all our partners for helping us create a better living environment and all our shareholders for their trust and investment in Nordecon AS.

Gerd Müller  
Chairman of the Board





## MANAGEMENT OF THE GROUP

Gerd Müller  
Chairman of the Board

Priit Luman  
Member of the Management Board  
Foreign Markets

Ando Voogma  
Member of the Management Board  
Sales and Pre-construction

Maret Tambek  
Member of the Management Board  
Finance and Support Functions



## MANAGEMENT OF THE GROUP

Mall Ivalo  
Head of Group Function HRM

Ingrid Kiisel  
Head of Group Function Legal Affairs

Veiko Pärilin  
Head of Tendering Department





## MANAGEMENT OF THE GROUP

Meelis Kann  
Buildings Construction Director

Hannes Must  
Head of Quality Department





## MANAGEMENT OF THE GROUP

Reedik Raudla  
Civil Engineering Director

Ain Pähkel  
Road Construction Director





## MANAGEMENT OF THE GROUP

Toomas Rell

Head of Residential Development Department

Tormi Mür

Technical Director





## MEMBERS OF BOARDS, NORDECON GROUP SUBSIDIARIES

Magnus Velling

Nordecon Betoon OÜ,

Member of the Management Bord

Kaspar Kaldjärv

Tariston AS,

Member of the Management Bord

Peep Sakk

Eston Ehitus AS,

Manager

Juri Petrik

Eurocon Ukraine TOV,

Manager

Missing from picture: Janek Uiibo

Kaurits OÜ, Manager





# 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 a 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 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 by at least 10% per year.
- Foreign markets' contribution will increase to 25% of revenue.
- Our housing development revenue will account for at least 5% of our Estonian revenue.
- Operating margin for the year will be consistently above 3%.
- We will, on average, distribute at least 30% of profit for the year as dividends.
- Return on invested capital (ROIC) will average 13%.



# CORPORATE SOCIAL RESPONSIBILITY FOCUS TOPICS

The construction sector plays an important role in society: our core activity supports the economy and provides employment to a lot of people. We are aware that in addition to economic aspects, our everyday activities have social aspects and influence the communities and the natural environment in which we operate. Similarly, external stakeholders and social trends influence our operations.

Decisions which determine the long-term success of companies are based on understanding the wider impact of their activities, social developments that shape market trends and stakeholders' expectations. Hence, we consider responsible management of people, environment, social relations and ethical market behaviour integral elements of contemporary management culture.

We communicate regularly with our main stakeholders: shareholders', employees', customers', subcontractors' and suppliers' opinions, satisfaction and expectations regarding our behaviour have a direct impact on the activities of the Group's parent and its subsidiaries (further described in relevant chapters of this report). People living near our construction sites and local authorities need to be sufficiently included in our projects. We communicate with regulators and supervision agencies to ensure compliance with legal and regulatory requirements and other standards. We work with schools, research institutions, professional associations and non-governmental organisations to build a better future and contribute to the development of the communities where we operate.

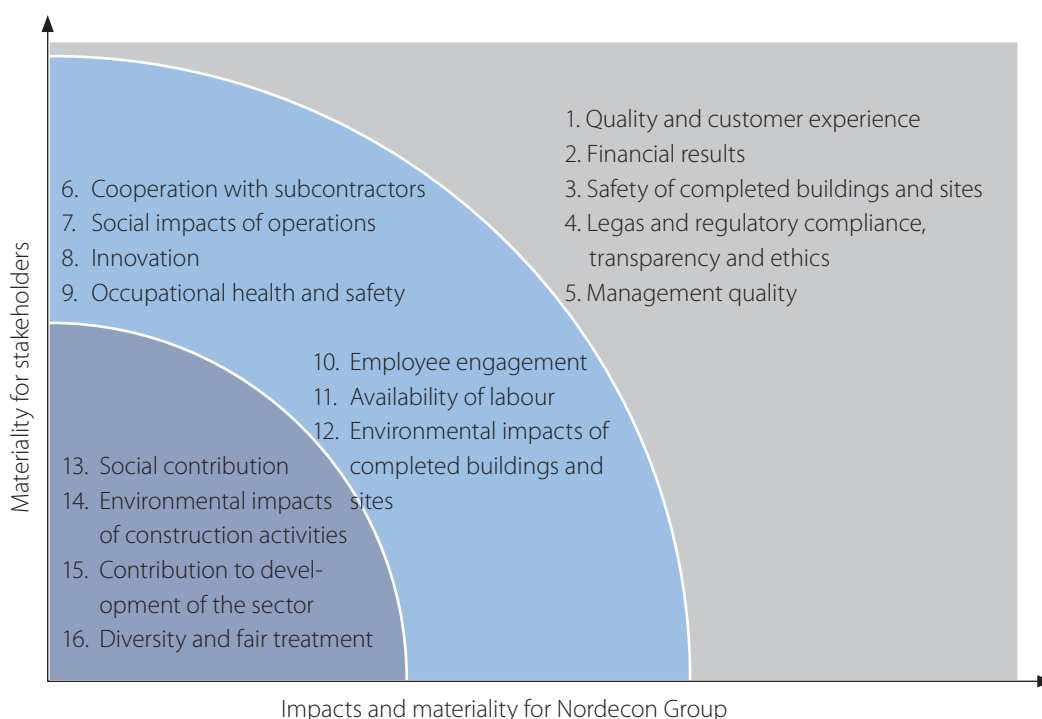
Open and inclusive business practice assumes informing stakeholders about the Group's approach to managing social, environmental and responsible business topics. At the end of 2016, the key management of the Group's parent and the executives of the larger subsidiaries analysed how stakeholders' possible expectations regarding responsible business practice interlock with the Group's understanding of how different topics influence its development. To ensure the quality and reliability of outcomes, the process was led by independent consultants.

Using the mapping technique, we identified focus topics which need to be prioritised in designing our everyday work, communicating with stakeholders and structuring our annual report. The matrix divides the topics into three categories based on their materiality.

All focus topics are, to a lesser or greater extent, important for all Group entities.

Based on them, current and future employees evaluate the employer, customers assess quality, subcontractors gain an understanding of expectations to the end-result and investors obtain assurance of comprehensive management of risks and opportunities.

The Group's directors' report for 2017 describes our approach to managing all topics which are material for the Group.



# MARKET TRENDS

In 2017, a substantial share of the Group's operations was carried out in Estonia and developments in the domestic market had the strongest impact on the Group's performance.

## Estonian construction market in 2017

According to preliminary data by Statistics Estonia, in 2017 Estonian construction companies' total output in Estonia and abroad (combined, in current prices) was around 2,500 million euros, an 18% increase on 2016. Building and infrastructure construction accounted for around 1,600 million euros and 900 million euros of the total respectively. Construction volumes in Estonia grew for the second year in a row, the growth rate was 23%. The local construction market was influenced the most by the building segment where output grew both in the construction of new buildings and renovation and reconstruction of buildings. Market growth was also supported by infrastructure construction which turned to a rise at the beginning of the year. The output of Estonian construction companies' foreign operations declined by 21% year on year, both in building and infrastructure construction. Foreign operations accounted for 8% of Estonian construction companies' output for 2017.

In building construction, growth was mainly underpinned by investments made by the private sector and continuing pickup of the real estate market. The number of new dwellings grew for the sixth year in a row. In 2017, 5,890 new dwellings received a permit of use, a rise of 1,158 on the prior year (2016: 4,732). Most of them were in apartment buildings and located in and around Tallinn and Tartu. There continues to be demand for new quality housing in prime locations. Construction permits were issued for 7,877 new dwellings (2016: 6,021). 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 1,251 and their total usable area was 804,000 square metres (2016: 1,060 and 771,000 respectively). Growth was the strongest in new warehouse, industrial and office space.

Construction output*	2016	2015	2014	2013	2012	2011	2010
Construction output in Estonia, in EUR millions	2,197	2,114	2,186	2,221	2,046	1,660	1,275
Of which buildings	1,478	1,366	1,384	1,332	1,222	958	718
Of which infrastructure assets	719	748	802	889	824	702	557

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

## Outlooks of the Group's geographical markets

### Estonia

#### Processes and developments characterising the Estonian construction market

- In 2018, public investment should grow slightly. However, it is still unclear for companies in which segments of the construction market and to what extent the state will be able to realise its investment plans. 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.

In terms of the market in general, investments made by the largest public sector customers (e.g. the state-owned real estate company Riigi Kinnisvara AS and the National Road Administration) which will reach signature of a construction contract in 2018 will not increase substantially. The Ministry of Defence has been a positive exception for builders as its needs and activity in carrying out new procurement tenders and placing orders through a single agency, the centre for defence investment, have made a major contribution to market revival. Hence, the Estonian construction market as a whole (particularly infrastructure construction segments) will remain relatively stable.

- 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 the experience of the last major crisis it is likely that in an environment of stiff competition and rising input prices some general contractors may run into difficulties which will be passed on to several other market participants.

Competition remains stiff across the construction market, intensifying in different segments in line with market developments. The rise in the average number of bidders for a contract reflects this. It is clear that in the new environment of rising input prices that has emerged in the past year, efficiency is the key to success.

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 set sales prices that are affordable for prospective buyers. Despite the market situation, the housing market sustained growth in 2017, accounting for a somewhat disproportionately large share of the total construction market and thus amplifying associated risks.
- 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 the contract performance phase and the subsequent warranty period.
- The past year has brought a rise in the prices of construction inputs, particularly in building construction. At first, general contractors tried to absorb the cost increase by making margin concessions but their capacity for doing this has been practically exhausted. The construction market includes an increasing number of areas where changes in the environment (including materials producers' rapid and successful entry into foreign markets) may trigger a sharp price increase. The rise in housing construction has lengthened the supply terms 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.
- The persisting shortage of skilled labour (including project and site managers) is restricting companies' performance capacities, affecting 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 sustains 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 mainly offer 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 2018, we will continue our Ukrainian operations primarily in the Kiev region but the preparations made in western Ukraine are also bearing fruit: in October 2017, we signed a large-scale contract in Lviv. Based on our order book, it is possible that in 2018 our Ukrainian business volumes will increase compared to 2017. Despite the military conflict in eastern Ukraine, for Nordecon the market situation 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 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 (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 work 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.





## RECONSTRUCTION OF LOGI STREET AND CONSTRUCTION OF ACCESS POINTS AND WAITING AREAS IN THE OLD CITY HARBOUR

**Location:** Logi street and areas in the Old City Harbour, Tallinn  
**Customer:** Aktsiaselts Tallinna Sadam  
**Architect:** K-Projekt AS  
**Construction period:** June 2016 – May 2017  
**Contractor:** Nordecon AS  
**Project manager:** Martin Paabo



## Sweden

We entered the Swedish market in July 2015, when we acquired a 100% stake in SWENCN AB, a company registered in the Kingdom of Sweden. In the Swedish market, we intend to offer mainly the construction of residential and non-residential buildings, particularly in central Sweden. On gaining experience in the new market, we have prioritised quality and adherence to deadlines and have therefore accepted lower profitability. As regards our longer-term goals and the plan to build a viable and strong organisation that would compete successfully in the Swedish market, we are positive about the developments so far and see potential for sustaining business growth and operating profitably in a large market when we have been able to stabilise order book growth at the desired level.

# 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 2018 public investment is not expected to grow substantially compared with 2017. Thus, builders' bid prices are under strong competitive pressure in a situation where the prices of construction inputs have been trending upwards moderately but consistently for several quarters. Bidders for contracts include not only rival general contractors but also former subcontractors. This is mainly 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 and adherence to deadlines to the lowest possible price. We acknowledge the risks inherent in the performance of contracts signed in an environment of stiff competition and rising input prices. 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 between 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. Although the amount exceeds the figure of the previous financial framework, the amounts earmarked for construction work are substantially smaller than in the previous budget period. Projects supported by the EU during the 2014-2020 financial framework had a visible impact on the construction sector in 2017 and in the following years the process is expected to accelerate.

In the light of the above factors, we expect that in 2018 as a whole our business volumes will remain at the same level as in 2017. 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 2017, the Group's warranty provisions (including current and non-current ones) totalled 1,249 thousand euros (31 December 2016: 1,164 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 37 thousand euros. In 2016, credit losses totalled 547 thousand euros, comprising impairment losses on trade receivables of 138 thousand euros and impairment losses on other receivables of 409 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.

### Liquidity risk

The Group remains exposed to higher than usual liquidity risk. At the reporting date, the Group's current assets exceeded its current liabilities 1.11-fold (31 December 2016: 1.20-fold). The key factor which influences the current ratio is the classification of the Group's loans to its Ukrainian associates as non-current assets and the banks' general policy not to refinance interest-bearing liabilities (particularly overdrafts) for a period exceeding twelve months.

Because the political and economic situation in Ukraine is still complicated, we believe that the Group's Ukrainian investment properties cannot be realised in the short term. Accordingly, at the reporting date the Group's loans to its Ukrainian associates of 8,492 thousand euros were 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 2017, the Group's short-term borrowings totalled 16,197 thousand euros, including factoring liabilities of 5,649 thousand euros. Based on our prior experience with banks, we expect that out of the above amount contracts of 13,288 thousand euros will be extended when their maturity dates arrive.

At the reporting date, the Group's cash and cash equivalents totalled 8,915 thousand euros (31 December 2016: 9,786 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. During the period, interest-bearing borrowings grew by 10,612 thousand euros year on year. Factoring liabilities and use of overdraft facilities increased whereas loan and finance lease liabilities decreased slightly (see also the section Liquidity risk). At 31 December 2017, interest-bearing borrowings totalled 29,990 thousand euros (31 December 2016: 19,399 thousand euros). Interest expense for 2017 amounted to 655 thousand euros (2016: 681 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 signed a derivative contract to manage the risks resulting from changes in the interest rate of the finance lease contract of a new asphalt concrete plant acquired in 2016.

### 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 exchange rate of the hryvnia has been unstable 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. Moreover, at the beginning of 2015 the National Bank of Ukraine decided to discontinue determining the national currency's indicative exchange rate. In 2017, the hryvnia weakened against the euro by around 15%. For our Ukrainian subsidiary, this meant additional foreign exchange losses from the translation of euro-denominated loans into the local currency. Relevant exchange losses totalled 416 thousand euros (2016: 195

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.

Our Ukrainian and non-Ukrainian entities' reciprocal receivables and liabilities which are related to 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.

In 2017, the Swedish krona weakened against the euro by around 3%. Due to adverse movements in the krona/euro exchange rate, the translation of operating receivables and payables resulted in an exchange loss of 15 thousand euros (2016: 18 thousand euros). The exchange loss has been recognised in Other operating expenses. The translation of a loan provided to the Swedish subsidiary in euros into the local currency gave rise to an exchange loss of 35 thousand euros (2016: nil euros). This exchange loss has been recognised in Finance costs.

We have not acquired derivatives to hedge our currency risk.

## Employee and work environment risks

Finding permanent labour is a serious challenge for the entire construction sector and one of the main factors that influences business results. The Group depends extensively on its subcontractors' ability to ensure the availability of skilled labour. To strengthen Nordecon's reputation as an employer and make sure that we can find employees also in the future, we collaborate with educational institutions.

As a construction company, we strive to minimise the occupational health and safety risks of people working on our construction sites including both own employees and those of our subcontractors. The goal is to make sure that all measures required by law are applied in full. In addition, the parent company follows the requirements of international occupational health and safety management standard OHSAS 18001. Subcontractors must ensure that their employees follow applicable work safety requirements; the Group's role is to work with them and create appropriate conditions.

## Environmental risks

Construction activities change landscapes and the physical environment of cities and settlements. The Group's goal is to do its work while protecting the natural environment as much as possible. Our assets and operations which have the strongest impact on the environment and, thus, carry the highest environmental risk are asphalt plants, quarries and road construction operations. To prevent leaks, spills, pollution, destruction of wildlife and other damage to the environment, we comply with legal requirements. All of our largest construction entities have implemented environmental management standard ISO 14001.

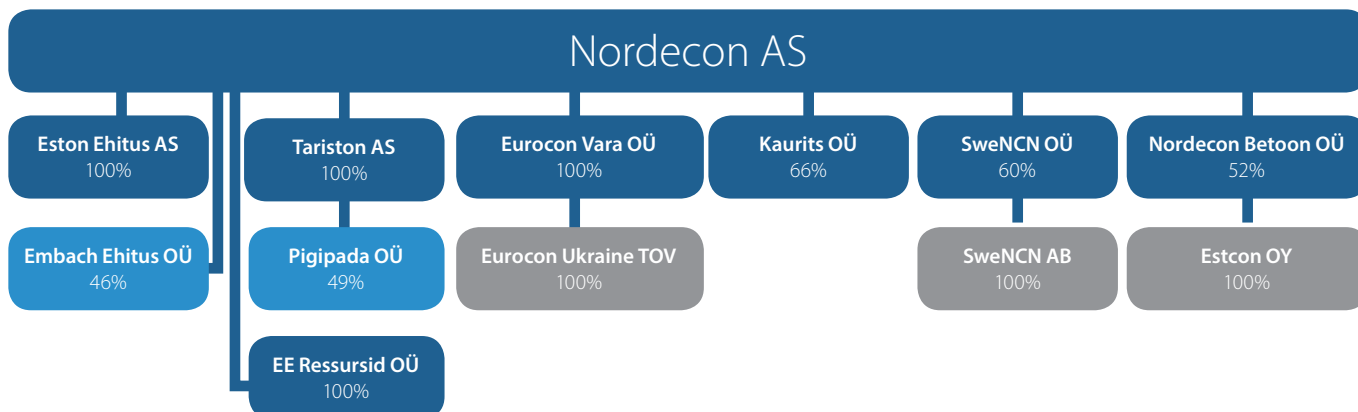
## Corruption and ethical risks

As one of the leading construction companies in Estonia, we realise that it is important to be aware of the risks involved in the breach of honest and ethical business practices and to make sure that our entities' management quality, organisational culture and internal communication emphasise zero tolerance for dishonest, unethical and corrupt behaviour.

# BUSINESS AND FINANCIAL REVIEW

## Group structure

The Group's structure at 31 December 2017, including interests in subsidiaries, associates and joint ventures\*



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

## Significant changes in Group structure

### 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, Tariston AS, were registered at the Commercial Register on 6 January 2017.

### Liquidation of a subsidiary

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

### Establishment of a subsidiary

On 16 February 2017, the Group's subsidiary Nordecon Betoon OÜ established a subsidiary, OÜ NOBE. The company was established to protect the trade name NOBE, which Nordecon Betoon OÜ has been using since spring 2017.

### Disposal of investments in a joint venture and some subsidiaries

On 31 July 2017, Nordecon AS signed an agreement for the sale of its 50% stake in the joint venture Unigate OÜ and 100% stakes in the subsidiaries Paekalda 2 OÜ, Paekalda 3 OÜ, Paekalda 7 OÜ and Paekalda 9 OÜ to AS Merko Ehitus. The purpose of the transaction was to resolve the ownership issues of the properties held by the entities and to dispose of the investments at a profit.

## The Group's operations in Estonia and foreign markets

### Estonia

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 larger 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 (Tariston AS).

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 2017. During the period, our loss from adverse movements in foreign exchange rates amounted to around 0.4 million euros. In recent years, the Group's bidding activities in Ukraine have been intentionally conservative: we have undertaken work mainly in the capital Kiev and the surrounding area. The ongoing military conflict, 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 such contracts whose risks have been reasonable, considering the circumstances. The situation in the Kiev region and western Ukraine has stabilised, considering the backdrop, and companies have started to adapt to the new environment. In 2017, our business volumes in Ukraine remained at a level comparable to 2016.

Real estate development activities which require major investment remain suspended to minimise the risks until the situation in Ukraine 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 properties owned by the associate V.I. Center TOV.

### Finland

There were no changes in our Finnish operations during the period under review. The Group's subsidiary Nordecon Betocon OÜ and its Finnish subsidiary Estcon Oy continued to provide services in the concrete work segment.

### Sweden

There were no significant changes in our Swedish operations during the period under review. The Group's subsidiary SWENCN AB continued to deliver services under building construction contracts secured as a general contractor. The subsidiary also developed its organisation and carried out active sales activities in order to win new contracts.

## Performance by geographical market

In 2017, Nordecon earned around 6% of its revenue outside Estonia, compared with 7% in 2016. In terms of foreign markets, the strongest revenue contributor was Sweden where we provided general contractor's services under three contracts. The share of Ukrainian revenues remained comparable to 2016. In Ukraine, we are providing general contractor's services under three building construction contracts and one infrastructure construction contract. Our Finnish revenues resulted from concrete works in the building construction segment.

	2017	2016	2015	2014	2013
Estonia	94%	93%	96%	94%	95%
Sweden	3%	4%	0%	0%	0%
Ukraine	2%	2%	3%	2%	0%
Finland	1%	1%	1%	4%	5%

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 have a strong impact on our current results. Increasing the contribution of foreign markets is one of Nordecon's strategic targets. Our vision of the Group's 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.

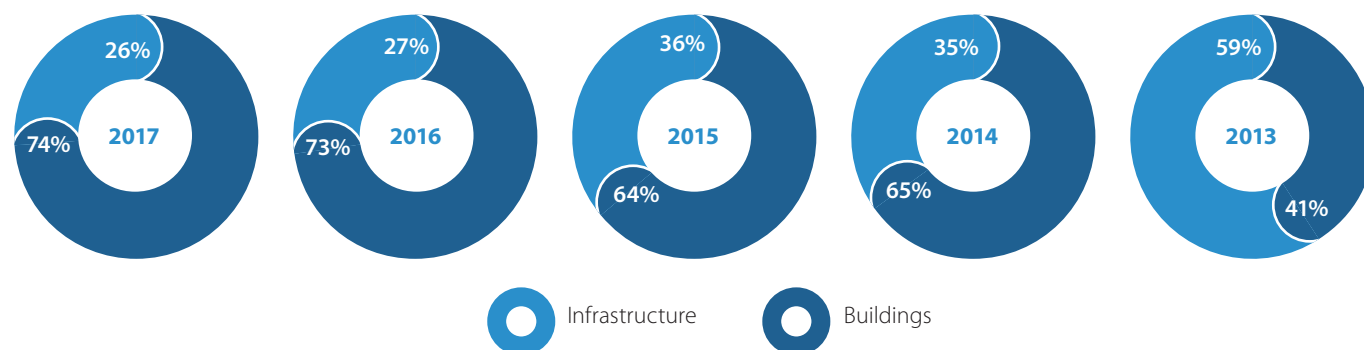
Nordecon's revenues for 2017 totalled 231,387 thousand euros, a roughly 26% increase on the 183,329 thousand euros generated in 2016. Although revenues increased in both the Buildings and the Infrastructure segment, the main growth driver was the Buildings segment where growth was underpinned by a rise in the volume of contracts secured from the private sector. The scarcity in infrastructure construction projects, which is affecting the entire Estonian construction market (and the Group's chosen strategy), has also left its mark on our revenue structure.

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 decline sharply while another begins to grow more rapidly.

## Segment revenues

In 2017, our Buildings segment and Infrastructure segment generated revenue of 174,447 thousand euros and 56,335 thousand euros respectively. The corresponding figures for 2016 were 134,554 thousand euros and 45,817 thousand euros (see note 25). Since a substantial share of Nordecon's revenue for 2017 was earned in Estonia, our revenue structure reflects quite fairly the overall situation in the Estonian construction market.

### Revenue by 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

In the period under review, the largest revenue source in the Buildings segment continued to be the apartment buildings sub-segment, where we earned most of the revenue as a general contractor. In Estonia, a substantial share of our apartment building projects is located in Tallinn. In 2017, the largest of them were the Meerhof 2.0 apartment building complex at Pirita tee 20a and apartment buildings at Sõjakooli 12 (phase 1) and Virbi 10. The contribution of foreign markets sustained growth. In Ukraine, we continued to build a residential quarter in the city of Brovary in the Kiev region. In Sweden, we completed the construction of two apartment buildings and continued the design and construction of a third, an 8-floor apartment building in Stockholm.

We continued work on our own housing development projects (reported in the apartment buildings sub-segment) in Tartu and Tallinn. In Tartu, we completed the construction and sale of apartment buildings in phases 5 and 6 and began building phase 7 (the last but one) of the Tammelin project ([www.tammelin.ee](http://www.tammelin.ee)). In Tallinn, we completed the construction of the fifth and last terraced house in our Magasini 29 development project ([www.magasini.ee](http://www.magasini.ee)) and two apartment buildings with a total of 30 apartments in Hane street. We continue to sell apartments in both of our Tallinn projects. The period's housing development revenues totalled 6,533 thousand euros (2016: 5,180 thousand euros). In carrying out our own development activities, we monitor closely potential risks in the housing development market that stem from rapid growth in the supply of new housing and growth in input prices.

The revenues of the industrial and warehouse facilities sub-segment grew year on year. The largest projects were the construction of Harmet's production and warehouse facilities at Kumna, near Tallinn, a co-generation plant at Kehra, and the Metsä Wood plywood factory and an extension to the Metaprint production plant in Pärnu. A strong contributor to the sub-segment's revenue growth was a rise in work secured from the agricultural sector. The largest assets built for the agricultural sector included the Kogula, Saimre, and Kirbla cattle shed complexes.

The revenues of the commercial buildings sub-segment grew considerably compared with 2016. We completed the renovation of the machinery hall of the historical Luther plywood factory into a modern office building and the construction of the office and commercial complex Viimsi Äritare. We continued to build an office building at Lõotsa 12, the Öpiku B building and a multi-storey car park at Lõotsa 11 in Ülemiste City and the Martens house in Pärnu.

The revenue contribution of the public buildings sub-segment decreased compared with 2016. The revenues of this sub-segment have



## RECONSTRUCTION OF THE BUILDING OF THE UGALA THEATRE

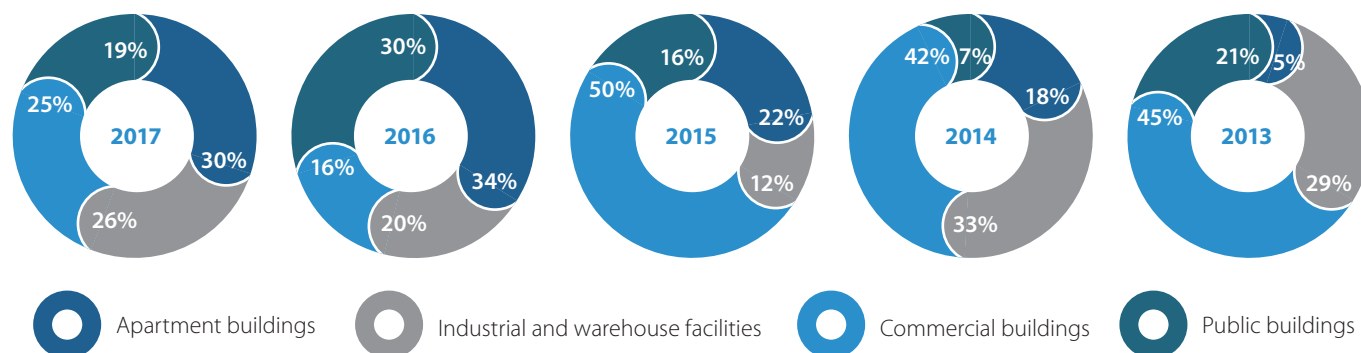
**Location:** Vaksali 7, Viljandi  
**Customer:** UGALA TEATER SA  
**Architect:** R-Konsult OÜ  
**Construction period:** February 2016 – July 2017  
**Contractor:** Nordecon AS  
**Project manager:** Olev Jõerand



been strongly influenced by growth in the state's investment in national defence. In 2017, we delivered to the customers the building of the Ugala theatre in Viljandi, the Lintsi warehouse complex, and a depot, infrastructure for armoured vehicles, a canteen and a barracks at the Tapa military base.

Based on the order book of the Buildings segment, we expect that in 2018 the share of the commercial buildings and public buildings sub-segments in the Group's total revenue will increase compared to 2017.

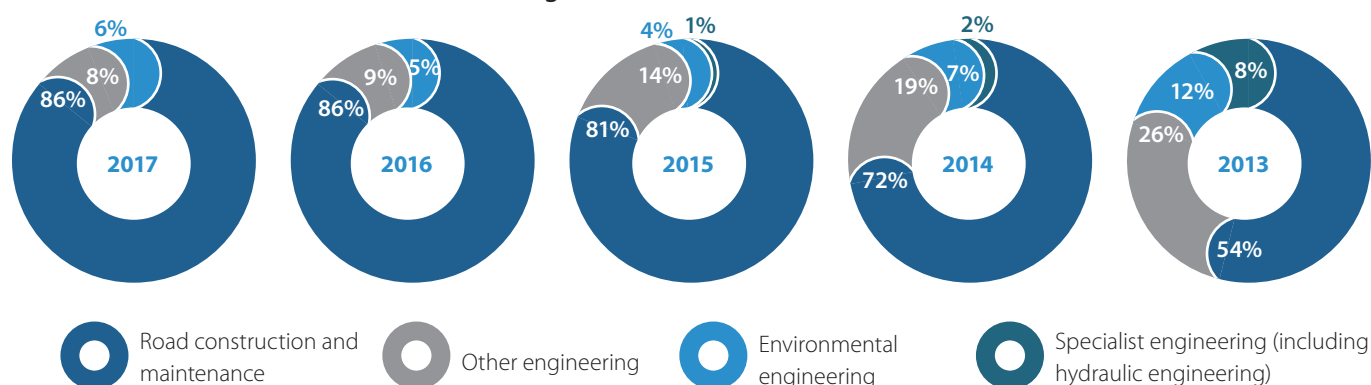
### Revenue breakdown in the Buildings segment



The revenue of the Infrastructure segment grew by around 22% year on year, driven by road construction and maintenance which has dominated the segment for a long time and increased its revenue by around 20%. In contrast to two previous years, when most of the segment's revenues resulted from small or medium-sized reconstruction or rehabilitation projects, in 2017 we had four large contracts: the construction of a 2+1 road (a road with passing lanes) on the Ääsmäe-Kohatu section of the Tallinn-Pärnu-Ikla road secured at the end of 2016 and the reconstruction of the Haabersti intersection in Tallinn, the construction of a 2+1 road on the Valmaotsa-Kärevere section of the Tallinn-Tartu-Võru-Luhamaa road, and the reconstruction of a section of the Tallinn ring road (km 0.6-2.8) secured in 2017. We continued to render road maintenance services in Järva and Hiiu counties and the Keila and Kose maintenance areas in Harju county. A substantial share of the period's revenues also resulted from forest road improvement services provided to the State Forest Management Centre.

The contracts of the environmental engineering and other engineering (utility network construction) sub-segments are small and significant growth of their revenues is unlikely. In recent years, we have not done any work in the specialist engineering sub-segment, where we used to perform mainly hydraulic engineering projects, as the procurement of such work tends to be irregular.

### Revenue breakdown in the Infrastructure segment



## Selection of completed projects

Major projects completed by Group entities in different sub-segments in 2017\*:

Brief description of the project	Group entity	Customer	Sub-segment
Reconstruction of Tähetorni intersection on km 11.3 of national road no. 8 Tallinn-Paldiski	Nordecon AS	Estonian Road Administration	Road construction
Reconstruction of Logi street and construction of access points and waiting areas in the Old City Harbour	Nordecon AS	AS Tallinna Sadam	Road construction
Reconstruction of the building of the Ugala theatre	Nordecon AS	UGALA TEATER SA	Public buildings
Office and commercial complex Viimsi Äritare	Nordecon AS	Kaarsilla Kinnisvara OÜ	Commercial buildings
Renovation of the machinery hall of the historical Luther plywood factory	Nordecon AS	Lutheri Ärimaja OÜ	Commercial buildings
Residential and commercial buildings at Rotermanni 18 in Tallinn	Nordecon AS	Dollimar Invest OÜ	Commercial buildings/ Apartment buildings
Apartment buildings at Virbi 8 and 10 in Tallinn	Nordecon AS	Liven Kodu 3 OÜ	Apartment buildings
Apartment buildings with commercial space at Kopli 4a and 6 in Tallinn	Nordecon AS	OÜ Novamaja	Apartment buildings
Extension to the Kohtla-Järve wastewater treatment plant	Nordecon AS	OÜ Järve Biopuhastus	Environmental engineering
Extension to the production building of AS Metaprint	AS Eston Ehitus	MP Majad OÜ	Industrial and warehouse facilities
Terraced houses in Tabasalu (phases 1-2)	AS Eston Ehitus	Pähkli Kodu OÜ	Apartment buildings
Apartment buildings at Hane 2 and 2a in Tallinn	AS Eston Ehitus	Nordecon AS, own development	Apartment buildings
Harmet OÜ's modular buildings production facility	Nordecon Betoon OÜ	Harmet OÜ	Industrial and warehouse facilities
Construction of the Kehra cogeneration plant	Nordecon Betoon OÜ	"Horizon" Tselluloosi ja Paberi AS	Industrial and warehouse facilities
Construction of an outdoor learning area Construction of the "Athens Classroom" for Rocca Al Mare School	Nordecon Betoon OÜ	Rocca Al Mare Kooli SA	Public buildings
BRF Styrmannen 49	SweNCN AB	Innovation Properties AB	Apartment buildings
BRF Sicklaön 10	SweNCN AB	Innovation Properties AB	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.

## Financial review

### Financial performance

Nordecon Group ended the year 2017 with a gross profit of 8,695 thousand euros (2016: 10,979 thousand euros) and a gross margin of 3.8% (2016: 6.0%). The weakening of the gross margin resulted mainly from the Buildings segment where gross margin dropped to 4.0% (2016: 7.5%). Above all, the year-on-year decrease in gross margin was attributable to growth in input prices, particularly materials and labour. Our performance is increasingly influenced by the insufficient availability of skilled labour and, consequently, the shortage of subcontractors in the building construction segment. In particular, this applies to housing construction, where the number of assets being built is high for the Estonian market. The situation enables subcontractors to raise their prices, which puts pressure on general contractors' profit margins. The decline in the Group's gross margin is also attributable to the loss of the Swedish subsidiary that incurred some interior work costs in the final stage of its first construction contract which could not be sufficiently accurately estimated in the new market. The performance of the Infrastructure segment improved compared to 2016, its gross margin rising to 4.1% (2016: 3.9%). At the beginning of 2017, we finalised the merger of two subsidiaries engaged in the infrastructure business, Järva Teed AS and Hiiu Teed OÜ, and Nordecon AS's road maintenance and machinery division. The restructuring, undertaken to streamline our infrastructure operations and increase the Group's overall competitiveness, has justified itself and helped the Infrastructure segment

improve its profitability and deliver revenue growth. Despite stiff competition and the continuing rise in input prices, we expect that in 2018 the Group's profitability will improve compared to 2017.

Administrative expenses for 2017 totalled 6,936 thousand euros (2016: 6,106 thousand euros). Compared 2016, administrative expenses grew substantially, mainly through the termination benefits paid to two members of the board of Nordecon AS that stepped down and the council's decision to increase the number of the company's board members. Despite changes on the board, structural streamlining and sustained investment in foreign markets which in the start-up phase is inevitably accompanied by planned growth in administrative expenses, our cost-control measures continued to produce good results and we were able to keep administrative expenses below the target ceiling of 4% of revenue. The ratio of administrative expenses to revenue was 3.0% (2016: 3.3%).

The Group's operating profit for 2017 amounted to 1,102 thousand euros (2016: 4,208 thousand euros). EBITDA amounted to 3,123 thousand euros (2016: 6,017 thousand euros).

Finance income for the year amounted to 2,901 thousand euros (2016: 463 thousand euros). A significant share of finance income resulted from the sale of investments in the joint venture Unigate OÜ and the subsidiaries Paekalda 2 OÜ, Paekalda 3 OÜ, Paekalda 7 OÜ and Paekalda 9 OÜ, which generated gain of 2,513 thousand euros.

In 2017, the Ukrainian currency weakened against the euro by around 15%, 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 451 thousand euros of which the portion resulting from the weakening of the hryvnia amounted to 416 thousand euros (2016: 195 thousand euros). The exchange losses increased the translation reserve in equity by 446 thousand euros (2016: 191 thousand euros) and the net effect of the exchange differences on the Group's net assets was a gain of 5 thousand euros (2016: a loss of 4 thousand euros). Net profit was also influenced by the write-down of loans related to two Ukrainian real estate development projects by 448 thousand euros (2016: nil euros), recognised in the fourth quarter within finance costs. The investments were written down in connection with the weakening of the hryvnia.

The Group's net profit amounted to 1,725 thousand euros (2016: 3,933 thousand euros), of which net profit attributable to owners of the parent, Nordecon AS, was 1,388 thousand euros (2016: 3,044 thousand euros).

## Cash flows

In 2017, operating activities produced a net cash outflow of 4,870 thousand euros (2016: a net inflow of 7,937 thousand euros). Although cash receipts from customers exceeded cash paid to suppliers, operating cash flow proved negative due to VAT paid and payments made to and for employees. Operating cash flow continues to be influenced by the fact that the contracts signed with both public and private sector customers do not require them to make advance payments while we have to make prepayments to subcontractors, materials suppliers, etc. Cash inflow is also lowered by contractual retentions, which extend from 5 to 10% of the contract price and are released at the end of the construction period only.

Investing activities resulted in a net cash inflow of 4,660 thousand euros (2016: an inflow of 107 thousand euros). Cash flows from investing activities were strongly influenced by the sale of the investment in the joint venture Unigate OÜ for 2,744 thousand euros and loan principal and interest of 1,461 thousand euros and 329 thousand euros respectively collected through the transaction. Investments in property, plant and equipment and intangible assets totalled 348 thousand euros (2016: 173 thousand euros) and dividends received amounted to 153 thousand euros (2016: 153 thousand euros).

Financing activities generated a net cash outflow of 648 thousand euros (2016: an outflow of 4,579 thousand euros). Our financing cash flow is strongly influenced by loan and finance lease transactions. Proceeds from loans received amounted to 9,207 thousand euros, consisting of development loans received and overdraft facilities used (2016: 2,847 thousand euros). Loan repayments totalled 1,123 thousand euros (2016: 2,262 thousand euros) consisting of scheduled repayments of long-term investment and development loans. Finance lease payments decreased slightly, amounting to 2,252 thousand euros (2016: 2,478 thousand euros). Dividends paid in 2017 totalled 4,497 thousand euros (2016: 1,068 thousand euros). Distributions made to owners in connection with the reduction of share capital totalled 1,384 thousand euros (2016: 923 thousand euros). Own shares sold during the reporting period generated cash of 153 thousand euros (2016: nil euros).

At 31 December 2017, the Group's cash and cash equivalents totalled 8,915 thousand euros (31 December 2016: 9,786 thousand euros). Management's commentary on liquidity risks is presented in the chapter Description of the main risks.

## Key financial figures and ratios

Figure/ratio for the period	2017	2016	2015	2014	2013
Revenue (EUR '000)	231,387	183,329	145,515	161,289	173,651
Revenue change	26.2%	26.0%	-9.8%	-7.1%	8.9%
Net profit (EUR '000)	1,725	3,933	174	2,298	4,639
Net profit attributable to owners of the parent (EUR '000)	1,388	3,044	179	1,956	4,642
Weighted average number of shares	30,913,031	30,756,728	30,756,728	30,756,728	30,756,728
Earnings per share (EUR)	0.04	0.10	0.01	0.06	0.15
Administrative expenses to revenue	3.0%	3.3%	3.5%	3.5%	2.8%
EBITDA (EUR '000)*	3,123	6,017	5,769	5,585	7,639
EBITDA margin	1.3%	3.3%	4.0%	3.5%	4.4%
Gross margin	3.8%	6.0%	6.2%	6.1%	6.5%
Operating margin	0.5%	2.3%	2.7%	2.5%	3.1%
Operating margin excluding gain on asset sales	0.5%	2.2%	2.4%	2.3%	2.9%
Net margin	0.7%	2.1%	0.1%	1.4%	2.7%
Return on invested capital	5.9%	8.5%	2.1%	5.8%	9.5%
Return on equity	4.8%	10.6%	0.5%	6.4%	14.2%
Equity ratio	30.8%	38.6%	40.1%	37.3%	33.4%
Return on assets	1.6%	4.2%	0.2%	2.3%	4.3%
Gearing	32.7%	16.7%	25.5%	24.8%	23.5%
Current ratio (note 5)	1.11	1.20	1.03	1.02	1.02
<b>As at 31 December</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>
Order book (EUR '000)	144,122	131,335	125,698	83,544	64,286

\* 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 2017, the Group's order book (backlog of contracts signed but not yet performed) stood at 144,122 thousand euros, 10% up on the end of 2016. Both the Buildings and the Infrastructure segment increased their order books by around 10%. Altogether, in 2017 we secured new contracts of 210,943 thousand euros.

As at 31 December	2017	2016	2015	2014	2013
Order book (EUR '000)	144,122	131,335	125,698	83,544	64,286

At the reporting date, contracts secured by the Buildings segment and the Infrastructure segment accounted for 75% and 25% of the Group's order book respectively (31 December 2016: 76% and 24% respectively).

In the Buildings segment, the strongest order book growth was delivered by commercial buildings which increased its order book by around 53% year on year. Growth was mainly driven by the construction of a multi-storey car park at Sepise 8 in Ülemiste City and



the design and construction of a 14-floor commercial and residential building at Mustamäe tee 3 in the WoHo quarter in Tallinn. The sub-segment's order book has also grown through two major contracts secured in the second half of 2017 in Ukraine: one for the construction of a 7-floor office building in the Unit City innovation park in Kiev and the other for the construction of a 6-floor office building in the LvivTech.City innovation park in Lviv. The order books of the public buildings and the industrial and warehouse facilities sub-segments have also grown somewhat. A significant share of the order book of the public buildings sub-segment is made up of contracts for the construction of buildings for the Estonian Academy of Security Sciences and Abja health centre that were secured in the third quarter and contracts for the construction of infrastructure for armoured vehicles and two barracks at the Tapa military base that were secured in the fourth quarter. A major share of the order book of the industrial and warehouse facilities sub-segment is made up of contracts for the construction of the Metsä Wood plywood factory in Pärnu and phase 4 of the Ekseko pig farm. The order book of the apartment buildings sub-segment has decreased by around 32%. A large share of the order book of the apartment buildings sub-segment is made up of contracts signed in 2017 for the construction of an eight-floor apartment building (Väsby Terrass) in Sweden and the design and construction of three apartment buildings at Kakumäe in Tallinn. In addition, we continue to build five apartment buildings in the city of Brovary in Kiev region in Ukraine.

The order book of the Infrastructure segment is supported by growth in contracts signed by the road construction and maintenance sub-segment whose order book accounts for 86% of the segment's total order book. The largest projects in the road construction order book are the contracts signed in 2017 for the reconstruction of the Haabersti intersection in Tallinn, the reconstruction of a section of the Tallinn ring road (km 0.6-2.8) and the construction of a 2+1 road on the Valmaotsa-Kärevere section of the Tallinn-Tartu-Võru-Luhamaa road. We continue to provide road maintenance services in three road maintenance areas: Järva, Hiiu and Kose. The order book of the environmental engineering sub-segment has grown through a contract signed for the construction of a water treatment plant in Kiev, Ukraine. Although according to our projections in 2018 public investments will not increase substantially, our order book as at the reporting date allows us to expect that in 2018 the revenue of the Infrastructure segment will grow slightly compared to 2017 (for further information, see the Business risks section of the chapter *Description of the main risks*).

Based on the order book and known developments in our selected markets, we expect that the Group's revenue for 2018 will remain at the same level as in 2017. In an environment of stiff competition, we avoid taking unjustified risks whose realisation in the contract performance phase may have an adverse impact on our results. Despite this, where suitable opportunities arise, we strive to increase the portfolio to counteract market-triggered margin compression. Our policy is to keep fixed costs under control and monitor market developments.

## Investments and capital expenditures

### Equity investments

In 2017, we did not make any significant investments in non-Group entities. Investments made 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 2017, capital expenditures on property, plant and equipment totalled 2,256 thousand euros (2016: 3,507 thousand euros) (see note 14). Purchases fell into three main 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)	2017	2016
Investments in equity-accounted investees (note 12)	248	461
Property, plant and equipment (note 14)	1,405	1,488
Intangible assets (note 15)	16	14

In 2018, capital expenditures will decrease somewhat compared with 2017. The focus will be on replacing obsolete machinery and equipment and improving operating efficiency.

# QUALITY SERVICE AND CUSTOMER EXPERIENCE

## Quality management

The best indicators of the work of a construction company are high-quality buildings and infrastructure assets completed on schedule. Quality work and end-results, customer satisfaction and the user safety of completed assets are fundamentally important aspects for the Group. Our goal is to make sure that we can complete quality buildings and infrastructure assets on time, within the budget agreed with the customer and in line with:

- the customer's requirements and project documentation;
- the legislation and standards regulating construction activities; and
- our own management system.

The Group's management system integrates all elements required for complying with the requirements of quality management standard ISO 9001, environmental management standard ISO 14001 and occupational health and safety standard OHSAS 18001. It ensures that the actions of all employees and functions are aligned and consistent and provides a set of common principles, goals, documents and activities.

Group entities which are directly involved in the construction business have prepared management system manuals. These describe processes and techniques, areas of responsibility, key performance indicators, monitoring, measuring and analysis. Information on the guiding principles and the management system is available to all employees on the Group's intranet and all managers have to make sure that their direct subordinates are sufficiently informed about the rules of procedure and the possible consequences of deviation from those rules. We continuously enhance the appropriateness, sufficiency and effectiveness of our management system. Inside the organisation, we communicate the changes to different levels and departments via the intranet or by email and in meetings or briefings. Once a year, we carry out a management review in the course of which we examine the results of analysis and appraisal and identify improvement needs and opportunities.

Quality management is coordinated by the head of quality department and ensuring its implementation is the responsibility of the board. Subsidiaries have separate persons responsible for quality management. In foreign markets where requirements and systems differ from the Estonian ones we work with specialists from outside the Group to make sure that the quality of assets delivered meets the customer's expectations.

For information about the period's warranty expenses, please refer to note 21.

At the parent company, each completed asset (building or item of infrastructure) is assigned a quality coefficient which is calculated on the basis of five indicators:

- Timely completion and delivery of the asset
- Number of rectification works at the planned date of completion (according to the customer's observations and work still in progress)
- Customer feedback and satisfaction (including complaints handling)
- Accidents at work and safety events (including isolated and repeated breaches)
- Technical inspections

Project teams' performance-related pay depends on the quality coefficient which is why its application is an important measure for enforcing quality requirements on construction sites.

The Group's parent maintains a "Deficiencies and proposals register" where all the precepts, notices of non-compliance and complaints received from the Labour Inspectorate, Transport Department, National Road Administration and other counterparties as well as individuals are recorded. We monitor the statistics and analyse the results. Based on that, we agree further measures for resolving and improving the situation. We contact the party that has communicated a deficiency and agree the action to be taken.

We encourage our project managers and teams to innovate and support justified implementation of new engineering solutions which are aimed at improving our everyday operating efficiency and offering more suitable construction solutions to customers. This enables us to manage increasingly more complex and demanding projects more effectively and to offer our people interesting, developing and diverse work.

Our production department has laboratories which help us meet quality requirements in road construction where customers' requirements are becoming increasingly more demanding. The laboratories, which are located in the vicinity of the plants, continuously test the indicators of mixes produced. Such ongoing control provides the production department with feedback which allows, where necessary, to specify the recipe of the mix or adjust the production process. Interim testing helps us to foresee risks and to reach a quality end-result in an optimal manner.

In our everyday work we increasingly use the opportunities offered by Building Information Modelling (BIM) – a 3D model-based software used for planning and designing buildings and infrastructure. BIM makes the design and construction processes more transparent, helps prevent problems, and ensures a higher-quality outcome for the end-user. The data saved in the model provides the customer using the building or infrastructure with an opportunity to quickly find relevant information about equipment or materials maintenance, products and suppliers. In 2017, we used the opportunities offered by BIM in 31 projects (2016: 15 projects).

## On-time completion

We have set ourselves the goal that all contractual commitments have to be met on time. To assure this, we plan construction 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.

In building construction, on-time completion is strongly influenced by the availability of labour for electrical, automation, special and interior finishing works. We are aware of the risk that the continuing lack of qualified skilled labour and top construction specialists (including project and site managers) may begin to undermine companies' performance capabilities and affect different aspects of the construction process, including quality.

## Customer satisfaction

In addition to employees, Nordecon's mission, vision and values prioritise customers. We work every day to understand our customer's needs in order to provide quality service and, thus, meet our customers' and our own high expectations.

Every customer is important for us. We maintain and develop customer relations through quality service and personal communication.

At the parent company, when a project comes to an end the customer is asked to evaluate the work. The assessment is summarised in a satisfaction index which consists of the evaluations of different aspects on a 12-point scale. The customer is asked to evaluate the conformity of work done with expectations, on-site work arrangement and tidiness, the skills and cooperativeness of the project team, fulfilment of agreements (including adherence to deadlines) as well as work done by subcontractors and to give an overall rating to the project. The results are analysed and used to design measures for preventing identified deficiencies from recurring in the future.

In 2017, the satisfaction index of the parent company's customers was 9.21 points out of 12 (the target was 9.0). At subsidiaries that measured customer satisfaction, the result for Eston Ehitus AS was 3.73 on a 5-point scale and the result for Tariston AS was 9.25 on a 10-point scale.

## Safety of completed buildings and infrastructure

Construction of buildings and infrastructure assets that are safe and secure for the end-user is a big responsibility for the Group.

- The safety of completed buildings and infrastructure is ensured by the following measures:
- planning and design work that complies with applicable requirements;
- the selection of suitable materials;
- safe technical solutions;
- proper order of works; and
- continuous review of critical operations in each area of work.

In 2017, there were no instances of non-conformity with health and safety regulations or voluntarily observed safety codes related to projects completed by Group entities.

The checks carried out by experts before the commencement (expert analysis of design documents), during and after the completion of work play an important role in achieving a safe end-result as they help identify and correct design and construction errors. When a project is completed, the building or infrastructure asset is delivered to the customer together with its performance documentation and instructions for maintaining its quality, state and safety.

The Group's subsidiary Tariston AS fulfils an important role in the national main and basic roads' "Critical Service Continuity Plan". The purpose of the plan is to make sure that the parties responsible for ensuring uninterrupted use of roads promptly respond to issues on roads and implement adequate measures to swiftly resolve the situation. Smooth road transport assumes, among other things, proper arrangement of road maintenance and the creation of safe traffic conditions.

## Local communities

High-quality construction process disturbs the area involved as little as possible. We realise that any construction activity influences the people living in the neighbourhood. In certain circumstances, noise, vibration, dust and transport may disturb the residents but when work has been completed, the new look of the area and better infrastructure will create positive emotions.

Where possible, we try to carry out our construction activities in a manner that least disturbs the local people – in particular, this means limiting the hours during which certain work may be done.

When major road construction projects are performed, information leaflets are regularly distributed in the area (a requirement for work procured by the National Road Administration). In addition, in line with generally accepted best practice our project managers visit home owners in the area.

When the extraction of underwater deposits in the quarries of Tariston AS has caused water supply shortages in the wells of the neighbourhood and it has been temporarily necessary to ensure compliance with the conditions set by local governments, the company has brought drinking water tanks for the residents.

In Sweden, residents' expectations to information exchange are high – it is common practice that before a project begins the customer engages in a dialogue with the local government and the builder must observe the restrictions agreed to meet the expectations of the community.

The Group strives to organise construction activities in a manner that does not damage the surrounding buildings and infrastructure. Before we start the construction of a building or a road, we register the state of the neighbouring buildings and infrastructure together with the customer in a reproducible format. This allows us to identify the aspects which should be monitored to prevent possible damage during construction work. It also helps us to resolve the complaints made by real estate owners when construction work damages the surrounding buildings and to prevent false claims. The Group compensates the rectification of damage caused to buildings and infrastructure due to its construction activities.

Observations and complaints communicated on a current basis including those communicated to the contacts displayed on the notice board of the project, are resolved by project managers together with the direct managers. In 2017, people living near the Group's construction sites filed five official complaints related to noise, dirt and obstruction of pedestrian traffic. The only fine (250 euros) was charged by Tallinn Transport Department for failing to redirect pedestrian traffic during the loading of goods on the construction site.

## EMPLOYEES AND PERSONNEL EXPENSES

The Group's most valuable assets and main success factors in implementing its strategy and achieving its goals are its employees. According to Labour Market Survey (2/17) by the Estonian Central Bank, in 2017 distinctive features of the construction sector were growth in the average wage and pressures on the availability of qualified labour.

The above factors also affected Group entities. In 2017, our human resource efforts were directed at promoting our business among young people, recruiting new employees, and supporting professional certification and recertification. We also paid attention to improving internal collaboration and work arrangement.





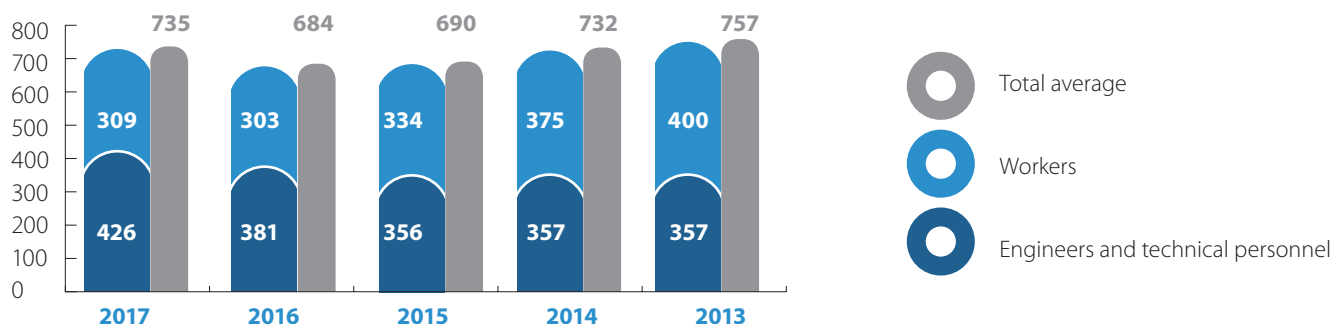
## OFFICE AND COMMERCIAL COMPLEX VIIMSI ÄRITARE

**Location:** Paadi tee 3, Haabneeme, Harju county  
**Customer:** Kaarsilla Kinnisvara OÜ  
**Architect:** Arhitektuuribüroo Siim & Põllumaa OÜ  
**Construction period:** June 2016 – July 2017  
**Contractor:** Nordecon AS  
**Project manager:** Kaido Aunre

In the Group's strategic agenda until 2020, employee satisfaction, engagement and teamwork are among the key priorities. Nordecon wishes to create a modern and professional work environment that offers opportunities for personal development, rewarding work experience and growth of the company's business.

In 2017, the Group (including the parent and the subsidiaries) employed, on average, 735 people including 426 engineers and technical personnel (ETP). Compared to 2016, headcount, particularly ETP, increased by around 7%, mostly in connection with growth in the Group's business operations.

### Average number of employees at Group entities



### Workforce statistics based on the average number of employees in 2017

	ETP staff		Workers		
	Male	Female	Male	Female	Total
Workforce by age					
Number of employees under 30 years old	87	37	60	2	186
Number of employees 30-49 years old	176	49	123	4	352
Number of employees 50 years old and over	53	24	114	6	197
Workforce by employment relationship					
Share of employees with permanent contracts (% of all employees in the category)	95%	93%	89%	83%	92%
Share of full-time employees (% of all employees in the category)	97%	86%	94%	50%	93%
Total number of days worked by leased workers*					3,634
New hires					
Number of employees under 30 years old	32	18	52	0	102
Number of employees 30-49 years old	27	7	35	3	72
Number of employees 50 years old and over	4	0	23	1	28
Employee turnover					
Number of employees under 30 years old**	25	9	48	0	82
Number of employees 30-49 years old**	32	8	39	1	80
Number of employees 50 years old and over**	6	2	26	3	37

\* Not included among employees presented on other lines

\*\*Including those that resigned, were laid off or dismissed or retired.

The Group's personnel expenses for 2017, including all taxes, totalled 22,872 thousand euros (2016: 20,401 thousand euros), a roughly 12% increase year on year. The growth in personnel expenses is mainly attributable to a larger headcount but pay rises also played a role.

The service fees of the members of the council of Nordecon AS for 2017 amounted to 167 thousand euros and associated social security charges totalled 55 thousand euros. In 2016, the corresponding figures were 138 thousand euros and 45 thousand euros plus a provision of 61 thousand euros made for performance-related pay and associated social security charges calculated based on the Group's consolidated performance indicators.

The service fees of the members of the board of Nordecon AS amounted to 1,001 thousand euros and associated social security charges totalled 330 thousand euros. In 2016, the corresponding figures were 350 thousand euros and 116 thousand euros plus a provision of 323 thousand euros made for performance-related pay and associated social security charges calculated based on the Group's consolidated performance indicators. The figures for 2017 include termination benefits of 550 thousand euros paid to two board members in the third quarter and associated social security charges of 182 thousand euros (2016: nil euros). In addition, the board's compensation grew because the number of board members increased.

### 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:

	2017	2016	2015	2014	2013
Nominal labour productivity, (EUR '000)	314.9	268.0	210.9	220.4	229.4
Change against the comparative period, %	17.6%	27%	-4.3%	-4.0%	9.9%
Nominal labour cost efficiency, (EUR)	10.1	9.0	8.0	8.0	8.4
Change against the comparative period, %	12.6%	12.8%	-0.6%	-4.8%	-11.6%

The Group's nominal labour productivity and labour cost efficiency increased year on year, mainly through revenue growth.

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

## Future employees and employer reputation

In an attractive employers survey conducted by Instar EBC among the students of higher and vocational education institutions in 2017, engineering students elected Nordecon AS the second most attractive employer. The Group was the highest-ranking employer among construction companies. The result confirms that students see Nordecon as a potential employer.

Wishing to be an attractive and reliable employer and to secure future workforce, we consistently develop our relations with universities and other higher education institutions. We work closely with Tallinn University of Technology and Tallinn University of Applied Sciences (TTK) where we find a considerable share of our young hires. Further information on cooperation projects is provided in the chapter *Giving back to society*.

Every year we participate in the career fair "Key to the Future" organised at Tallinn University of Technology to be close to young people and address them directly. The fair helps us find interns for the summer as well as new talent for our construction sites and entities involved in preparatory activities. In 2017, we also contributed to the shaping of future construction professionals through the education committee of the Estonian Association of Construction Entrepreneurs where we provided input to educational institutions' construction-related curricula.

We believe that it is important to offer students internship opportunities so that they could apply their theoretical knowledge in practice. In the reporting period, most of our interns were from Tallinn University of Technology and Tallinn 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.

In 2017, Group entities provided internship opportunities to 34 students from different educational institutions.

## Employee satisfaction and engagement

Continuous increase of employee satisfaction and engagement is one of the Group's strategic objectives. We have been measuring this regularly since 2010 using the TRI\*M Index (a summary engagement index). To ensure the comparability of different periods' outcomes, we have always used the help of the same company, Kantar Emor.

In 2017, invitations to participate in an employee engagement survey were sent to 357 employees from four Group entities (Nordecon AS, Nordecon Betoon OÜ, Eston Ehitus AS and Tariston AS). 81% of them completed the survey. The high participation rate reflects the employees' trust in the management of the Group and its entities.



In general, the Group's employee engagement remained stable. In 2017, our employee engagement index was 65 (2016: 66). The result, 65, is at the same level as the average TRI\*M Index in Estonia but higher than the average for the Estonian agriculture, manufacturing or construction sectors (2016: 61).

Overall satisfaction was 3.9 on a 5-point scale, remaining at the same level as in the previous year (2016: 3.9). The share of dissatisfied employees has been decreasing consistently. Around two thirds of our employees would recommend Nordecon as an employer. The share of actively engaged employees (i.e. highly motivated employees who want to make a difference) is also fair (18%) and comparable to Estonia's average.

Employees give high ratings to our work environment and the professionalism of their colleagues. According to their assessment, more attention should be paid to internal communication and enhancing the motivation system.

To motivate and retain the staff, we have supplemented the remuneration system with a benefits system. The Group has signed an accident insurance contract that covers all of the Group's employees and complements liability insurance which is required by law.

The parent company's benefits include additional days off for length of service, personal days, benefits related to personal life events, support for participation in sports competitions and team events.

Nordecon AS and the subsidiary Tariston AS continue to pay the salary to employees who have to be away from work in connection with the Defence Forces' reservist training.

The Group's employees are keen on sports and the Group supports their healthy lifestyle – our people take part in running events such as the SEB Majjooks and SEB Tallinn Marathon and our team participates in the Tartu Marathon Cube which consists of a series of races. We regularly organise joint visits to construction sites. The purpose is to build the team spirit and a common understanding of the Group's activities. The events foster teamwork and strengthen relations between our office and construction site staff. 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 around 250 employees from across the Group.

## Employee development

We believe that the professional development of our employees plays an important role in shaping employee engagement and the success of the Group. By supporting employee training and education, we can unlock their full potential and thus increase the value of both the employees and the company.

We conduct regular annual performance interviews to identify the development needs of the staff and include them in their development process. To ensure the quality of the interviews, we have prepared guidance documents for both employees and their performance managers. During the interviews, we identify training needs, plan certification activities and obtain valuable feedback on the Group and its management.

In 2017, we focused on providing professional training aimed at improving the professional competencies of different specialists as well as teamwork training. Customers' expectations and requirements regarding our employees' professionalism are increasing. In 2017, our ETP employees and workers received 24 hours and 2.5 hours of training on average respectively.

Professional certificates, particularly those held by project and site managers, are an important precondition for bidding for public procurement contracts. Due to changes in professional standards, we have to provide our staff with regular further training that meets the new and more stringent requirements. Compliance with professional certification requirements is reassessed regularly based on the further training points gathered in the past five years which must be supported by relevant work experience in the same period.

The Group's key personnel have the required professional certificates which enables us to be competitive in a situation where from summer 2018 managers of construction activities are required to hold a relevant professional certificate. Several of our employees have a professional certificate in more than one field.

In 2017, we continued active collaboration with universities in order to support the development of our staff. For example, since 2016 we have been working with Tallinn University of Technology to provide our employees with more extensive knowledge about heating, ventilation, water and wastewater systems. We also continue to support our employees' studies at higher education institutions and their participation in relevant professional lecture cycles offered by universities.



## Management quality

According to a survey published by CVKeskus.ee in October 2017, around two thirds of people employed in the Estonian construction and real estate sectors are dissatisfied with management quality.

On the one hand, Nordecon Group regards building management and leadership quality as an opportunity to stand out not only as a strong and well-established construction company but also as a good employer. On the other hand, we realise the need for consistently developing relevant skills.

The Group's top executives receive management and leadership training, including external and team training (e.g. for the whole management team). In 2017, 50-100% of members of the boards of the Group's Estonian construction entities participated in at least one management or leadership training.

In addition to improving the skills of the top management, we also invest in improving the management quality of our project and site managers.

## Diversity and equal opportunities

The Group respects human rights and relevant policies are set out in Group entities' work procedure documents. In 2017, women and men accounted for 17% and 83% of the workforce respectively. On Group entities' boards, 13% of members were female and 87% male. In terms of age, 25% of employees were under 30, 48% were 30-49 and 27% were 50 or more years old.

Workforce diversity and its management are part of contemporary management culture and our organisation is no exception. We see diversity as an asset. We employ people of different ages, genders and ethnicities as well as people with special needs:

- We have created a working environment which is also suitable for people with special needs and, subject to agreement, offer 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.
- Nordecon operates in different countries and our employees are used to working with colleagues with a different cultural background and outlook, which is why we can appreciate diversity of opinions and everyone's right to have their own point of view.

In 2017, there were no reported incidents of discrimination or violation of human rights at the Group.

## Work safety

As an employer operating in the construction sector, one of the greatest responsibilities of the Group is to do everything in its power to ensure that its own employees and the employees of its business partners and subcontractors would not have accidents at work. Customers, too, expect safe and tidy construction sites. This means that the Group deals with occupational health and safety risks continuously. The topic is equally important in the context of own employees as well as subcontractors in all markets where we operate.

The topic has four complementary aspects:

- preventing accidents at work and reducing occupational diseases;
- ensuring safety;
- ensuring ergonomic, clean and modern work environment and equipment;
- supporting employees' physically and mentally healthy lifestyle.

The Group observes all applicable laws and regulations and has implemented Group-wide and site-specific work safety procedures as well as an action plan for emergency situations. The operations of the Group's parent and the subsidiary Nordecon Betoon OÜ are in conformity with the requirements of international occupational health and safety management systems standard OHSAS 18001.

Work safety is ensured by the following measures:

- Ensuring general work safety at a Group entity is the responsibility of the entity's chief executive who creates conditions for designing a safe work environment, which includes appointing people responsible for relevant areas (such as a work environment specialist, a work safety coordinator, an internal control specialist), setting up appropriate structures, preparing relevant documents, etc.
- Work environment risk factors are identified through risk analyses. Higher-risk works include supporting structure, roof, façade, digging/earth-moving and assembly works.



## RENOVATION OF THE MACHINERY HALL OF THE HISTORICAL LUTHER PLYWOOD FACTORY

**Location:** Vana-Lõuna 39, Tallinn  
**Customer:** Lutheri Ärimaja OÜ  
**Architect:** HG Arhitektuur OÜ  
**Construction period:** June 2017 – July 2017  
**Contractor:** Nordecon AS  
**Project manager:** Arvo Kirotus



- Each construction site has its own work safety plan which describes, among other things, possible risk factors and activities for their mitigation.
- Each site is assigned a work safety coordinator who has passed relevant training and is responsible for work safety on the site as well as ensuring that subcontractors receive relevant instruction and guidance.
- Work safety coordinators are advised by the entity's work environment specialist who at the start of each project helps the site team prepare work safety documentation. The work environment specialist visits all construction sites on a regular basis to inspect how safety requirements are followed. Findings are recorded in a relevant register, summaries are analysed on a site-by-site basis and findings relating to subcontractors are communicated to subcontractors. On-site work safety reports are prepared on a weekly basis.
- Our entities have elected work environment representatives as well as work environment councils where the employer and the employees are equally represented.
- The head of quality department is responsible for making sure that the quality management system functions properly, internal controls are applied and internal control findings are analysed.

Although we always sign an agreement on ensuring occupational health and safety with each subcontractor before work begins, one of the keys to ensuring actual work safety is the supervision and instruction of subcontractors. Where necessary for a better outcome, our representative personally instructs the subcontractors' construction staff. This helps to make sure that the staff working on our construction sites apply the right work techniques and, thus, behave safely.

We publish a monthly electronic work safety newsletter where we highlight mistakes made and corrective action taken. All of our places of business (construction sites and offices) have at least one employee who has received first aid training.

### Work safety statistics 2016-2017

	2017		2016	
	Group's employees	Subcontractors	Group's employees	Subcontractors
Work safety related incidents	2	16	1	9
Minor accidents at work	6	1	3	3
Serious accidents at work	2	3	1	3
Fatal accidents at work	0	0	0	1

In 2017, the total number of sick leave days taken across the Group was 2,564, i.e. 3.5 sick leave days per employee on average.

Reports of hazardous situations where an accident could have happened are also recorded in the incidents register. Measures are taken to remove the source of risk identified in each report and relevant information is communicated to other sites so that the possible source of risk could be reviewed.

The Group has set up a training programme for its work safety coordinators. The internal programme focuses on specific issues and is more efficient than attendance in public training courses.

Our employees pass regular medical examinations. The Group provides employees with proper work equipment, work clothing and personal protection equipment and checks their use. On construction sites, the Group creates working conditions (shelters and welfare facilities for resting, washing, etc.) that meet all contemporary requirements for both its own employees and those of its subcontractors.

The subsidiary Nordecon Betoön OÜ has implemented a safety observation index based on the TR safety rating methodology developed in Finland. It enables a work safety specialist that visits construction sites to register and forward findings to project teams and the board conveniently via a smart device, without leaving the construction site, and to observe the implementation of corrective action in real time. Based on the evaluation of different criteria, the safety index displays the current safety rating on a 100% scale, providing an easily comprehensible overview of the situation.

In Sweden, the subsidiary SweNCN AB uses the mandatory ID06 card. Electronic registration of each entry to and exit from the construction site allows both the company and the authorities to have a constant overview of persons present on the



construction site. Construction sites are only accessible to persons that have been registered to the site and have appropriate ID06 cards, which rules out the possibility that on-site staff include persons who do not have permission to work in the Kingdom of Sweden or have not passed work and environmental safety instruction.

## SUPPLIERS AND SUBCONTRACTORS

In the general contracting and project management market, the quality of work done depends extensively on material and product suppliers and subcontractors. As a rule, an average-sized construction project has over fifty partners and its final outcome depends heavily on the effectiveness of the work done by suppliers and subcontractors. Accordingly, it is essential that suppliers and subcontractors would be recognised operators in their field, would meet the expectations of the customer and the Group and would observe established requirements.

In selecting suppliers and subcontractors, we review their background, track record, financial position and the availability of resources needed. In particular, we pay attention to the security of supply and adherence to deadlines. The final selection is made from a shortlist of bidders that meet the requirements by assessing the technical solution, quality, performance capabilities and financial advantageousness.

**Building materials.** Although the main building materials are specified by architects and designers in different stages of the project, the Group is interested in offering the customers the best possible technological solutions by outlining alternatives to the above specifications based on its own experience and skills. A significant share of materials is supplied to the Group directly. However, a major share of ancillary materials required for doing the work is brought to the construction site by subcontractors. Regardless of who selects the main building materials, the Group has to make sure that the financial targets are met and that products used and the work done meet contractual, regulatory and quality requirements.

Most building materials and products have to meet stringent requirements (existence of declarations of conformity and CE markings). Therefore, it is important first to explain the requirements to suppliers and subcontractors and later to check the conformity of materials and products continuously and effectively so as to avoid subsequent risks.

Since the construction sector plays an important role in fuelling the economy, we purchase, where possible, materials and products from local suppliers who in turn source their main raw materials and other inputs from outside Estonia.

For a long time, the Group has had the policy that materials are purchased in a coordinated manner by the Group's purchasing department. In recent years, the department has further improved its activities and received excellent feedback from different stakeholders. The purchasing department makes sure that purchasing activities are professional and timely. The Group, as the general contractor, works closely with designers, materials producers and customers in order to find the best materials solutions.

**Subcontractors.** In its capacity as a general contractor, the Group uses the services of many subcontractors and also lease of labour. It is important for us that all our partners should be capable, operate honestly, observe all applicable legal and regulatory requirements and respect occupational health and safety. We do not work with subcontractors about whom we know that they have engaged in disreputable business practices.

Regrettably, at present the Estonian construction market suffers from a lack of labour and therefore also from a rise in labour costs, which has a strong impact on meeting deadlines and the desired profitability indicators. Above all, it is difficult to find suitable labour for building construction, particularly interior works.

For years, we have recognised our partners, suppliers and subcontractors by thanking them publicly in the year-end issue of the business paper Äripäev.

We sign an occupational health and safety assurance agreement with all subcontractors we select. The agreement sets out both parties' obligations in ensuring work, fire, electrical and environmental safety. Through such agreements, we guarantee that occupa-

tional health and safety requirements are observed, general order is maintained, employees are instructed and supervised and joint activities are carried out in a coordinated manner. Subcontractors are liable for observing agreements made, the requirements set by the Group and relevant laws and regulations.

In 2017, we did not detect any breaches, risks or negative impacts on occupational health and safety or environmental aspects on the part of our subcontracts that would have resulted in terminating the contract or deciding to avoid further cooperation.

In 2018, the Group is going to create a modern subcontractor database by implementing a digital environment that will provide real time information about subcontractors. In the environment, subcontractors will be rated on the basis of different criteria, which will provide an overview of their performance and will help us make objective decisions in future procurements.

**Appraisal.** In construction activity, we apply the policy that when work or an order has been completed, the project manager assigned by the Group must apprise each supplier and subcontractor whose material, product or work had an impact on the quality and on-time delivery of the end-result of the project. At other entities (e.g. the asphalt plant and mining and quarrying operations) the appraisal is given once a year.

The appraisal is given based on whether the supplier or subcontractor:

- has the permits and registrations as well as the resources required for doing the work;
- observes deadlines and agreements;
- is cooperative and flexible;
- makes sure that the work, product or service meets the required quality criteria;
- makes sure that the work, product or service is environment-friendly; and
- makes sure that occupational health and safety requirements are observed.

## ENVIRONMENTAL IMPACTS

### Environmental impacts of construction activities

Any construction activity affects the environment. The goal of all Group entities is a cleaner environment and avoiding unnecessary and adverse environmental impacts during construction activities. This is achieved by:

- identifying and regularly assessing our main environmental impacts and maintaining a relevant environmental aspects register;
- preparing site- and location-based action plans for managing the environmental aspects of all our construction sites and permanent locations of operation (including asphalt plants, mining and quarrying operations, road maintenance operations and offices);
- complying with all applicable laws and regulations;
- applying international environmental management standard ISO 14001 at the Group's largest construction companies (including Nordecon AS, Eston Ehitus AS, Tariston AS and Nordecon Betoon OÜ);
- using methods, technologies, machinery and materials that do not excessively burden the environment; and
- submitting regular environmental reports and declarations in line with established procedures.

We focus on the sustainable management of the most important environmental aspects of the Group's activities:

- waste (including hazardous waste) and dust resulting from construction activities;
- risk of pollution of soil, water bodies and groundwater (e.g. leakage of oil, fuel and wastewater);
- possible contamination of the environment and damage to flora caused by earthworks; and
- exhaust gas emissions resulting from asphalt production.

In 2017, the Group did not receive any precepts or penalties imposed by supervision authorities for breach of environmental requirements. Tariston AS received from the Ministry of the Environment and the Environmental Inspectorate five findings related to its mining and quarrying activities. However, these did not result in cautions or sanctions.

For each construction site, we prepare an environmental programme, which describes the measures for reducing or controlling significant impacts. The main focus is on avoiding contamination and pollution and reducing negative impacts on wildlife (flora and fauna). The programme also covers optimal use of resources (such as electricity and water) and organisation of transport.

An important role in life cycle assessment is played by customers and designers who set the requirements to solutions, materials and the end-result which determine the environmental impacts of the construction process and, above all, the completed building or infrastructure asset. However, sustainability also depends on the activities of our business partners, subcontractors and employees. Increasing their knowledge and awareness and documenting the requirements in contracts and agreements are important tools for achieving our environment protection goals.

**Materials.** To ensure more efficient use of materials, we have created a central purchasing department whose competence and experience allow planning materials quantities more precisely and timing deliveries more accurately. Centralised approach to the purchase of reinforced concrete elements, glass façade solutions, doors and windows and other construction materials, goods and products which make up a significant part of the total volume of a project helps us prevent excessive costs both in terms of the budget and the environment.

Where possible, we use reusable or recycled materials in place of non-renewable natural resources.

Group entities handle large quantities of concrete, surface materials (crushed stone and sand), steel and bituminous asphalt mixes.

In road construction, we see opportunities in offering environment friendly solutions such as use of oil shale ash and concrete in road construction. In 2010-2016, Nordecon AS participated in OSAMAT, a pilot project undertaken with Eesti Energia AS and the National Road Administration to test the possibilities of using oil shale ash in road construction in order to save natural resources and reduce CO2 emissions. Use of concrete is also technologically possible and has proven to be a viable solution in other countries. Thirdly, we believe that using road milling waste in road surfacing would help make Estonian roads dust-free at a lower cost.

**Waste.** Both building and road construction generate large quantities of waste. One of the keys to reducing residues and waste is more effective planning and design which prevents excessive materials purchases and remakes.

We organise our waste management in accordance with national and local laws and regulations. The Group's activities mainly result in the following waste types: stone and surface, concrete, bituminous mixes and mineral waste and mixed waste from construction and demolition operations (in small quantities also wood, metal, paper, plastic and mixed municipal waste and different packages).

On our construction sites, we strive to sort waste into general construction waste, metal, hazardous waste and mixed municipal waste. Sorted waste is handed over to waste handlers. Hazardous waste and polluted surface is handed over to appropriately licensed waste handlers. The packaging of building materials is collected by suppliers.

**Pollution.** Air and soil pollution risks result mainly from road construction and asphalt plants and quarries.

The Group has three asphalt plants whose emissions are measured as required by the air pollution permits obtained. In line with the requirements of pollution permits, regular air pollution reports are submitted to the Environmental Board. According to measuring results, in 2017 permitted quantities of pollutants were not exceeded. When the quantities permitted by the air pollution permits have been minimally exceeded during production, additional environmental charges have been paid. At asphalt plants and their laboratories, it is also important to make sure that hazardous waste is properly disposed of.

In 2017, our asphalt plants emitted a total of 4,996 tonnes of carbon dioxide.

In carrying out asphalt paving works, we take care to avoid bitumen emulsion leakages or spills both during delivery to the site and the paving process. When the risk of leakage or spill is identified, appropriate measures are adopted to prevent pollution.

Our entities use machinery, equipment and mechanisms which are in good technical condition and regularly maintained and serviced to prevent accidental leaks and risk of pollution resulting from technical failure. The same is required of subcontractors. On handling oils, fuels and similar substances, we take care to avoid leakages and spills on the ground, into surface and ground water, water bodies and wastewater and drainage systems. We have action plans for accidents during digging/earth moving operations which are aimed at preventing contamination of the environment. Contaminated soil may not be mixed with other waste soil or reused. Contaminated soil is recycled or removed in accordance with applicable requirements.

In 2017, Group entities did not cause any environmental pollution.





## RESIDENTIAL AND COMMERCIAL BUILDINGS AT ROTERMANNI 18 IN TALLINN

**Location:** Rotermanni 18, Tallinn  
**Customer:** Dollimar Invest OÜ  
**Architect:** HG Arhitektuur OÜ, Novarc Group AS  
**Construction period:** August 2017 – November 2017  
**Contractor:** Nordecon AS  
**Project manager:** Oleg Kaas

**Energy and fuels.** The Group's largest sources of energy consumption are asphalt plants, quarries and buildings under construction which need temporary heating. To economise, a few years ago one of the asphalt plants was transferred to electrical energy consumption. In 2017, our asphalt plants and quarries used around 1,300 MWh of electricity and slightly more than 30 tonnes of different fuels.

To achieve energy savings, we are increasingly trying to replace temporary heating solutions at buildings under construction with stationary solutions designed for completed buildings. In 2017, around one tenth of energy consumed by the Group resulted from renewable sources.

The Group has over 200 company cars. To ensure fuel saving, we keep the age of the fleet low and prefer cars with less powerful engines. The same principle is observed on the acquisition of construction machinery and equipment: we continuously invest in new and more environment friendly assets and expect our subcontractors to do the same.

**Biodiversity.** It is important for us to plan our construction work so that there would be no intentional or accidental damage to plants and landscapes. We avoid unnecessary removal of trees and no trees or plants are removed without proper authorisation. Where possible, we suggest to the customer that trees and other vegetation should be retained. Green areas which are to be retained are separated from the construction site, where necessary with a fence. We also carry out replacement planting.

In 2017, Group entity Tariston AS carried out land improvement operations, i.e. work of a temporary nature, at Mullutu nature reserve and Soomaa national park (including forest drainage and construction of access roads) under a public procurement contract with the State Forest Management Centre. To date, the work has been completed and duly delivered to the customer.

## Environmental impacts of completed buildings

Sustainable construction is a gradually growing market trend which is also acknowledged and kept in mind by Group entities. Mainly this means the design and construction of energy efficient buildings which not only protects the environment but also lowers operating costs. Demand for such buildings is shaped by customers' decisions, particularly in the case office buildings in the Nordic countries including Estonia. Laws and regulations also support the trend towards higher energy efficiency. For example, the energy performance indicators of buildings with indoor climate control which are used or owned by the state, local government entities or legal persons governed by public law may not exceed the limits established for near zero energy buildings if the building permit is issued or the notice regarding construction work is submitted and the building is built after 31 December 2018 (in the case of buildings belonging to other owners after 31 December 2019).

Accordingly, the Group keeps itself up-to-date with developments in this area and develops its skills and competencies in line with market trends. Projects with higher than usual environmental requirements are also useful forward-looking learning opportunities for us: the end-users of office buildings built in accordance with traditional criteria may also be interested in the energy efficiency, sanitation and climate control solutions and precise water and electricity metering methods of green buildings as well as use of local and reusable materials.

In 2017, Group entities completed 20 buildings that meet higher than usual environmental standards (e.g. the LEED standard, passive house, energy performance labels A and B): two apartment buildings and a school in Finland (Mäntsälän, Gullkronan, Hyökkännummen and Tesoman), 11 apartment buildings in Estonia (one with an A label in Saku and ten with a B label in Tallinn including the buildings at Rotermanni 8, Kopli 4a and 6 and Magasini 29) and two apartment buildings in Sweden (Styrmannen and Nacka).

In Ülemiste City in Tallinn, we have built two office buildings that meet the LEED Gold standard – one at Löötsa 5, which was completed in 2015, and the other at Löötsa 12, which will be completed in 2018. The experience gained in these projects strengthens our position in bidding for the construction of buildings applying for the LEED or some other environmental certificate in the Nordic markets.

A noteworthy project among buildings completed in the reporting period is the machinery hall of the historical Luther plywood factory where we had to blend old and modern architecture in a building subject to heritage conservation requirements and find suitable solutions for exhibiting old construction elements.



In March 2017, we laid the cornerstone of the 13-floor Alexandre Liwentaal office building at Lõõtsa 12 in Ülemiste City. The green building is being built in accordance with the requirements of the LEED Gold standard. This means that during construction the builder avoids harming the environment, the building is a good fit for the surrounding ecosystem and public space and in terms of materials selection, energy and water consumption, climate control and innovative design the completed building meets higher than usual environmental requirements.

Our task is to ensure solutions such as preparedness for maximum use of green energy, environment friendly heating, sanitary equipment of the highest efficiency, precise metering of daily resource consumption, waste sorting, good ventilation. State-of-the-art technical systems allow separate adjustment of climate control for each 2.5 metre- wide modular unit.

Special requirements include using, where possible, locally sourced materials produced by local companies. 75% of construction waste is to be reused.

All this makes it possible to keep maintenance and utilities costs low and offer tenants environment-friendly and well-designed office environments.

*"Technopolis Group has adopted the LEED certification system for developing the efficiency of its office buildings – all new office buildings will be built and existing ones will be certified in conformity with LEED standards. This helps us promote green and sustainable work environments among customers. We measure CO2 emissions, energy and water consumption and other environmental indicators. One of the keys to achieving our environmental objectives is following the LEED standards during the construction process. We are very pleased with the work done by Nordecon – their project management methods, technical competence and cooperative approach."*

Gert Jostov

Chairman of the Management Board of Technopolis Ülemiste AS

## GIVING BACK TO SOCIETY

### We contribute to the development of a more sustainable construction sector

Being a large construction company, the Group has significant influence in the communities and the society in which it operates. The Group's strongest social impacts lie in doing quality construction work and contributing to the overall development of the construction business and sector. Supporting the development of the construction business is important for the Group because it improves general welfare and is directly related to the Group's strengths. The Group has extensive knowledge and experience and sufficient influence in this area to instigate change.

The Group consciously manages its influence on the community – we are an active partner for professional associations related to the construction industry, universities and occupational qualification authorities and a permanent sponsor of various cooperation projects.

Our representatives participate in the work of professional and business organisations and share their knowledge at public conferences and universities. Through these channels we can voice our opinion, make proposals for drafting and amending laws and regulations, arrange different cooperation projects and exchange information. The knowledge and experience gained is shared within the Group and applied in daily management activities.

In 2017, our staff continued to raise important topics through professional bodies. For example, we contributed to the drafting of a new Public Procurement Act and submitted our commentary on the renewal of professional standards to the qualifications committee of the Estonian Association of Civil Engineers.

#### **Group companies belong to the following organisations:**

- Estonian Chamber of Commerce and Industry
- Estonian Association of Construction Entrepreneurs
- Estonian Asphalt Pavement Association
- Estonian Concrete 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 for Electrical Power Engineering

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

- Estonian Qualifications Authority (promoting the engineering profession and further engineering training, 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 providing construction education
- Construction industry expert group for OSKA (a system for monitoring and anticipating labour market needs)

Nordecon AS's road construction director Ain Pähkel spoke at **Infrastructure Conference 2017** about the economic gain of reusing materials in the road construction business because Nordecon AS has experience in reusing industrial and construction waste in road construction. *"Reusing construction waste is gaining importance in society because according to the EU Waste Directive by 2020 70% of construction and demolition waste must be recovered, recycled or used in some other way, for example as a filler,"* said Ain Pähkel at the conference.

Nordecon AS's board member Erkki Suurorg participated in a seminar arranged by Tallinn University Open Academy about the opportunities offered by **ADAPTER, a platform connecting researchers and entrepreneurs**. The event focused on cooperation between construction companies and universities. *"Very good results can be achieved when lecturers, students and company representatives collaborate. Even if this does not lead to a whole project but only some innovative parts of it, benefits are already significant,"* said Erkki Suurorg at the seminar.

## We support the development of young people through education and sports

Lack of qualified employees is one of the main factors which is holding back quality work in the construction sector. Accordingly, the Group regards promotion of engineering education, attracting young people to the construction business and thus ensuring that new engineers will continue coming to the market as a priority. In line with the policy, in 2017 we continued our long-term cooperation with Tallinn University of Technology.

The main projects carried out with Tallinn University of Technology in 2017 included the following:

- Nordecon supported BUILD IT 2017, a conference, fair and competition arranged by Tallinn University of Technology civil engineering department, which this time focused on demolition and renovation. One of the speakers at the conference was Nordecon's board member Priit Luman who shared his practical experience based on the example of the reconstruction of the Ugala theatre.
- We continued our long-term cooperation with 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 researcher 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.
- We supported Tallinn Technical University in the production of a promotional video introducing the building design and construction management programmes of Tallinn University of Technology.
- We continued the project of training visits. For example, a group of geodetic surveying and road construction students visited Nordecon's project: Main road no. 4 (E67) Tallinn-Pärnu-Ikla km 28-37 Ääsmäe-Kohatu 2+1 passing lanes.

Tallinn University of Applied Sciences organised Inseneeriapäev, a day dedicated to engineering where Nordecon's technical director Tormi Määr presented the companies of Nordecon Group to university and secondary school students. Nordecon supported the prize fund of the Goldberg contest held in the framework of the event.

We continue to support Järveküla School in promoting sciences, technology, engineering, and mathematics among middle school pupils. For years, we have been among the main sponsors of Nõmme Private Education Foundation.

In addition to education, Group entities support sports and, to a lesser extent, culture and other areas that encourage people to be socially active. In 2017, we continued to sponsor:

- Sports Club Duo and Tallinn University of Technology Sports Club
- Young sailing athlete Karl-Martin Rammo – the main 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
- Tallinn City Theatre
- Estonian Defence Forces – the aim of the support agreement with the National Defence Promotion Foundation is to recognise the best officer and the best non-commissioned officer serving in the Estonian Defence Forces

In 2017, the Group's donations and support payments totalled 300 thousand euros (2016: 199 thousand euros).

## GOVERNANCE

### 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 29 years. Besides construction companies, he has held senior positions at various other enterprises (Tallinna Kaubamaja Grupp AS, AS E-Betoonement, OÜ Vääkivi, 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 22 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, Arealis Holding 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 Swedbank AS). 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), OÜ FinEst Bay Area (board), PARKI Teadus- ja Tööstuspark OÜ (council), commercial association Tuleva (council)

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

**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). He is an honorary member of the Estonian Academy of Arts.

**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:** 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. At 31 December 2017, the board of Nordecon AS had four members (Erkki Suurorg, Priit Luman, Maret Tambek and Ando Voogma). After the end of the reporting period, on 8 January 2018, a new chairman of the board Gerd Müller took office and on 31 March 2018, the service contract with Erkki Suurorg was terminated. At the date of release of this annual report, the board has the following members:

**Gerd Müller**, chairman of the board

Gerd Müller has been the chairman of the board of Nordecon AS since 8 January 2018. He is responsible for the overall management of the parent company and the Group. Previously, Gerd has worked in banking and payment services: at Hansapank (later renamed Swedbank) as head of different business lines and a member of the board (1992-2001), EuroProcessing International (later renamed First Data) as regional manager (2002-2008), TAG Systems Finland (later renamed EVERY Card Services) as head of the Baltic region (2009-2015) and Nordea's Baltic development director and chief executive of the Estonian branch (2015-2017). Gerd has graduated from the Faculty of Economics of Tallinn University of Technology.

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

**Interests (over 5%) in other companies:** Adviseum OÜ.

**Priit Luman**, member of the board

Priit Luman has been a member of the board of Nordecon AS since 1 May 2017. He is responsible for the company's foreign operations. He has worked in different construction management positions at companies of Nordecon Group since 2006. In 2013 he became director of the Building division. Priit graduated from Tallinn University of Technology in 2010 with a MSc degree cum laude in industrial and civil engineering. Since 2017, Priit has been enhancing his competencies in the EMBA programme of Aalto University. Priit Luman holds the qualification of Chartered Civil Engineer, level 8, awarded by the Estonian Association of Civil Engineers.

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

**Interests (over 5%) in other companies:** none





## APARTMENT BUILDINGS AT VIRBI 8 AND 10 IN TALLINN

**Location:** Virbi 8 ja 10, Tallinn  
**Customer:** Liven Kodu 3 OÜ  
**Architect:** AS Nord Projekt, OÜ Civen  
**Construction period:** January 2016 – October 2017  
**Contractor:** Nordecon AS  
**Project manager:** Marko Mägi

**Maret Tambek**, member of the board

Maret Tambek has been working for the Group since 2007 when she joined Nordecon Infra AS the company's chief financial officer. In spring 2010 she became the Group's chief accountant and since July 2014 she has been the Group's chief financial officer. Previously Maret worked for 11 years as an auditor at KPMG Baltics OÜ. From 1992 to 1996 she worked as a specialist for the Estonian Central Bank. Maret graduated from Tallinn Polytechnic Institute (today: Tallinn University of Technology), the department of production management and planning. Maret is a certified public accountant and a member of the Estonian Association of Auditors. On the board where she has been from 1 May 2017 Maret Tambek is responsible for Nordecon AS's financial management and support services.

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

**Interests (over 5%) in other companies:** Absolvere OÜ.

**Ando Voogma**, member of the board

Ando Voogma joined Nordecon AS in 1996. From 2002 to 2005 he was a member of the Group's board and IT and development director. Since 2005 he has been a member of the board of AS Arealis, a real estate company belonging the group of Nordecon AS's parent Nordic Contractors AS. Ando Voogma graduated from Tallinn University of Technology, department of industrial and civil engineering, in 1993. On the board, where he has been since 1 August 2017, Ando Voogma is responsible for Nordecon AS's sales and pre-construction activities.

**Membership in the governing bodies of other organisations:** MTÜ Lilleoru (board).

**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.

## Ethical business practices

In addition to observing laws and regulations, a distinctive feature of the Group's organisational culture is honest, transparent and ethical behaviour. We have zero tolerance for conflicts of interest, corrupt behaviour and unfair competition and we have declared this both internally and externally.

Value-based management and decision-making mitigates risks, maintains the Group's image as a reliable partner in the market as well as in relations with stakeholders and underpins profitable business operations. It also enables us to support fair competition in the construction market.

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, which causes direct damage to the Group's reputation and business activity.

In our relations with both private and public sector customers we follow the unwritten rule that when an external party's proposal seems to involve a conflict of interest or to be corrupt or in contradiction with the law, it must be turned down immediately. The Group does not make gifts to customers or offer any other benefits with a view to exerting influence and gaining an unfair advantage.

In 2017, the Group did not provide financial support to any political party.

**Instructions to employees.** Our main goal is to avoid incidents of corruption and involvement in questionable situations by informing our employees. We have adopted rules and procedures which regulate, among other things, arrangement of honest and open procurements in the performance of construction contracts, use of the Group's property, keeping business secrets, handling inside information, investment and risk management, business administration and document management.

The expectations agreed with employees in respect of daily behaviour are set out in our work procedure documents. According to adopted rules, the Group does not tolerate fraud or other unethical behaviour which damages the Group's reputation or make consumers, customers or business partners distrust the Group.

Ensuring the regulatory and legal compliance of subcontractors and leased workers that work on our sites is the responsibility of their direct employers, not that of the Group.

**Code of ethics.** In 2017, we began compiling a code of ethics. We expect to implement the document, which describes transparent, ethical and fair behaviour accepted in the Group, at the end of 2018.

**Confidentiality.** Nordecon AS is a listed company. Therefore, some of our employees are subject to the requirements of the Securities Market Act and the rules of the Tallinn Stock Exchange which relate to maintaining the confidentiality of and disclosing inside information and conducting transactions with shares in Nordecon AS. The Group has established its own Inside Information Rules. All employees who have or are likely to gain access to inside information or have been entered in the insider list of Nordecon AS Group for some other reason have to confirm their compliance with the rules with their signature.

The Group has access to and may process state secrets. Accordingly, our staff follow, also within project teams, relevant information disclosure restrictions.

**Communication.** Our customer communication is personal. We use public communication channels (websites, social media, press releases) to communicate information which is expected to be of interest to the public in general, such as information about the commencement and completion of work and projects and other decisions that concern certain stakeholder groups directly.

**Complaints.** Our intranet includes an anonymous channel that our people can use to report suspicions of corruption, breach of honest and ethical business practices as well as unfair treatment. The whistleblowing hotline is administered and the content of issues reported is communicated to the audit committee appointed by the council of Nordecon AS by an independent internal audit service provider that does not disclose the source of the report.

**Control.** To regularly check the transparency and compliance of its activities, the Group uses the services of an independent internal audit service provider. We cooperate openly with authorities that visit our construction sites increasingly more often, including the Tax and Customs Board, the Labour Inspectorate, the Police and Border Guard Board and the Environmental Inspectorate. In projects, where the Group is the general contractor, it also provides authorities with access to its subcontractors and their employees but is not responsible for their legal and regulatory compliance.

**Breaches.** The Group's management is not aware of any incidents of corruption in 2017, including incidents involving its employees and incidents involving its subcontractors, customers or other partners that would have required a response from the Group. In 2017, the Group's whistleblowing hotline received no complaints about corruption, unethical or unfair behaviour or non-compliance with laws or regulations that would have required investigation.

In 2017, there were also no incidents of serious legal or regulatory non-compliance at Group entities. The only findings and precepts which were resolved within the timeframe required were received from the Ministry of the Environment and the Environmental Inspectorate (5 in total) and the Labour Inspectorate (16 in total).

## 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 2017 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 2017, 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 2017, shareholders did not ask any questions about the agenda items either before the annual general meeting or the extraordinary general meeting. All questions and answers are available on the website until information about the next general meeting is published.

At the annual general meeting of 2017, the company was represented by 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. At the extraordinary general meeting of 2017, the company was represented by chairman of the council Toomans Luman and member of the council Andri Hõbemägi.

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 2017, 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 24 May 2017. 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.

On 2 October 2017, an extraordinary general meeting of Nordecon AS took place, which was held in the Conference Centre of the Radisson Blu Hotel Olümpia in Tallinn and started at 10.00 am. The meeting was called by the board of Nordecon AS. The agenda item of the extraordinary general meeting was an additional profit distribution.

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](http://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 2017, 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 2017, the annual general meeting was attended by chairman of the board Jaano Vink, members of the board Priit Luman and Erkki Suurorg and member of the council Andri Hõbemägi. The extraordinary general meeting was attended by 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 2017, 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. Chairman of the council Toomas Luman and members of the board Avo Ambur and Maret Tambek and the auditor of Nordecon AS did not attend the annual general meeting. The issuer's board members did not attend the extraordinary 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 2017, 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 2017, 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 2017, the board had the following members:

Name	Position/area of responsibility	Beginning of term of office	End of term of office
Erkki Suurorg	<b>Member of the Board</b> General management of Nordecon AS and the Group and management of the construction operations of Nordecon AS	1 January 2011	31 March 2018
Priit Luman	<b>Member of the Board</b> Management of the Group's foreign operations	1 May 2017	30 April 2020
Maret Tambek	<b>Member of the Board</b> Management of the financial and support services functions of Nordecon AS	1 May 2017	30 April 2020
Ando Voogma	<b>Member of the Board</b> Management of the sales and pre- construction operations of Nordecon AS	1 August 2017	31 July 2020
Jaano Vink	<b>Chairman of the Board</b> General management of Nordecon AS and the Group	5 August 2002	31 July 2017
Avo Ambur	<b>Member of the Board</b> Management of the sales and pre- construction operations of 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 incentives:

- Performance-related pay for achieving the targets set for the financial year. Depending on the board member's area of responsibility, the basis for performance-related pay is consolidated EBITDA or the EBITDA for a market/entity of the Group (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 (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).

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, the then members of the board were granted share options. Under the option agreements that were signed, the chairman of the board could acquire 291,380 shares and members of the board could 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).

The annual general meeting which convened on 24 May 2017 approved some changes to the share option plan by which the term for exercising a share option was extended and the conditions for exercising the options granted to persons who at the grant date were members of the board were amended. An option may be exercised within 15 months after the general meeting has approved Nordecon AS's annual report for 2016. Depending on the time an option is exercised, its exercise by the board member is linked to the achievement of the Group's EBITDA target for 2016 (from 4,491 thousand euros to 11,228 thousand euros) or the Group's EBITDA target for 2017 (from 4,132 thousand euros to 8,264 thousand euros).

In 2017, the service fees of the members of the board of Nordecon AS amounted to 1,001 thousand euros and associated social security charges totalled 330 thousand euros. In 2016, the corresponding figures were 350 thousand euros and 116 thousand euros plus expenses on the provision for board members' performance-related pay, recognised based on the Group's performance indicators, of 323 thousand euros including social security charges.

In 2017, 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 2017, 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 related to 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 2017, the council had five meetings in which all council members participated. In addition, four times resolutions were adopted electronically; in those cases all council members participated.

In 2017, Nordecon AS complied with the subsections of section 3.1 of CGC that relate to the 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 2017, 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	Vice-chairman 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 24 May 2017, from 1 July 2017 the chairman's basic monthly service fee is 9,000 euros, the vice-chairman's basic monthly service fee is 3,000 euros and the basic monthly service fee of other council members is 1,200 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 and vice-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 of the chairman of the council and the vice-chairman of the council may not exceed two thirds and one third respectively of the performance-related pay calculated for a member of the board.

In 2017, the service fees of the members of the council of Nordecon AS amounted to 167 thousand euros and associated social security charges totalled 55 thousand euros. In 2016, the corresponding figures were 138 thousand euros and 45 thousand euros plus expenses on the provision for performance-related pay, recognised based on the Group's performance indicators, of 61 thousand euros including social security charges.

In 2017, 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 2017, 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 2017, the board and the council worked closely in monitoring implementation 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 2017, 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 subsection 4 of section 242 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 on its board and higher governing body and its results 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 2017, 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 on any other basis.

## 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](http://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 2017, the company's threshold for notifying of significant construction contracts was 3.2 million euros. In 2017,



## APARTMENT BUILDINGS WITH COMMERCIAL SPACE AT KOPLI 4A AND 6 IN TALLINN

**Location:** Kopli 4a ja 6, Tallinn  
**Customer:** OÜ Novamaja  
**Architect:** Martin Aunin FIE, Aet Piel Disain OÜ, IB Püloon OÜ  
**Construction period:** March 2016 – April 2017  
**Contractor:** Nordecon AS  
**Project manager:** Jürgen Klooren

Nordecon AS made 41 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 (including the release of the annual report, interim reports and the notice of the annual general meeting), on its website and in a separate announcement in the information system of the stock exchange. In addition, the company has made available on its website information about 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 2017, 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 2017, 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 of the company's council that approved the annual report as required by subsection 6.1.1 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 addition to audit services, in 2017 we purchased from the audit firm tax advice, advice in the preparation of sustainability reporting, legal advice and translation of financial statements. Altogether, in 2017 the fees Nordecon AS paid to the audit firm totalled 51 thousand euros.

The auditor provided the audit committee formed by the council with a written memorandum on the company's audit of 2017, the auditor's findings and other significant matters that were discussed with the board.

In 2017, Nordecon AS complied with the subsections of section 6.2 of CGC that relate to auditing.

# SHARE AND SHAREHOLDERS

## Share information

<b>Name of security</b>	Nordecon AS ordinary share
<b>Issuer</b>	Nordecon AS
<b>ISIN code</b>	EE3100039496
<b>Ticker symbol</b>	NCN1T
<b>Nominal value</b>	No par value*
<b>Total number of securities issued</b>	32,375,483 Number of listed
<b>Securities</b>	32,375,483
<b>Listing date</b>	18 May 2006
<b>Market</b>	NASDAQ OMX Tallinn, Baltic Main List
<b>Industry</b>	Construction and engineering
<b>Indexes</b>	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 24 May 2017 the annual general meeting of Nordecon AS adopted a resolution on the reduction of the company's share capital and on 15 September 2017 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 1,456,896.74 euros, from 19,720,440.42 euros to 18,263,543.68 euros. Share capital was reduced by reducing the book value of the shares by 0.045 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 18,263,543.68 euros, consisting of 32,375,483 shares with no par value.

The reduction of share capital of 1,384,052.76 euros (0.045 euros per share) was paid out to shareholders on 18 December 2017. No payments were made to Nordecon AS for own shares held by the company.

## Summarised trading results

### Share trading history

	Price (EUR)	2017	2016	2015	2014	2013
Open		1.34	1.03	1.02	1.05	1.17
High		1.46	1.35	1.14	1.09	1.29
Average		1.30	1.14	1.05	1.02	1.13
Low		1.20	0.98	0.98	0.93	0.99
Last closing price		1.23	1.33	1.05	1.06	1.05
Traded volume (number of securities traded)		1,977,849	1,162,430	1,656,376	1,799,724	2,443,809
Turnover, in EUR millions		2.60	1.3	1.71	1.85	2.81
Listed volume (31 December), in thousands		32,375	32,375	32,375	32,375	30,757
Market capitalisation (31 December), in EUR millions		39.82	43.06	33.99	34.32	32.29

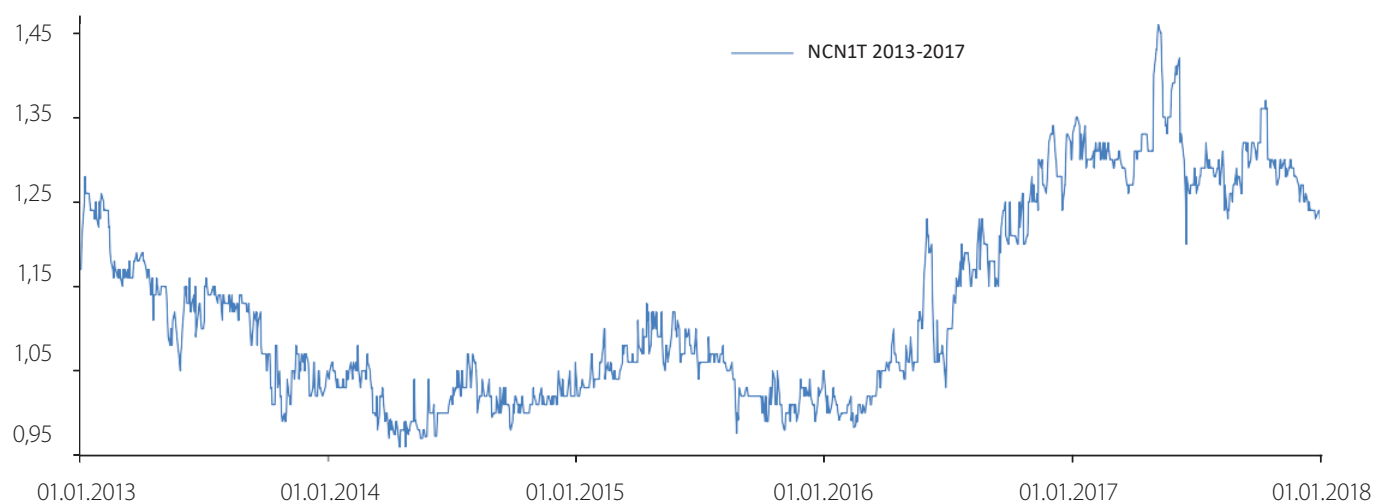
### Price earnings ratio (P/E) and price to book ratio (P/B)

	Ratio	2017	2016	2015	2014	2013
P/E		27.4	13.3	180.4	16.7	7.0
P/B		1.1	1.1	0.9	0.9	1.0

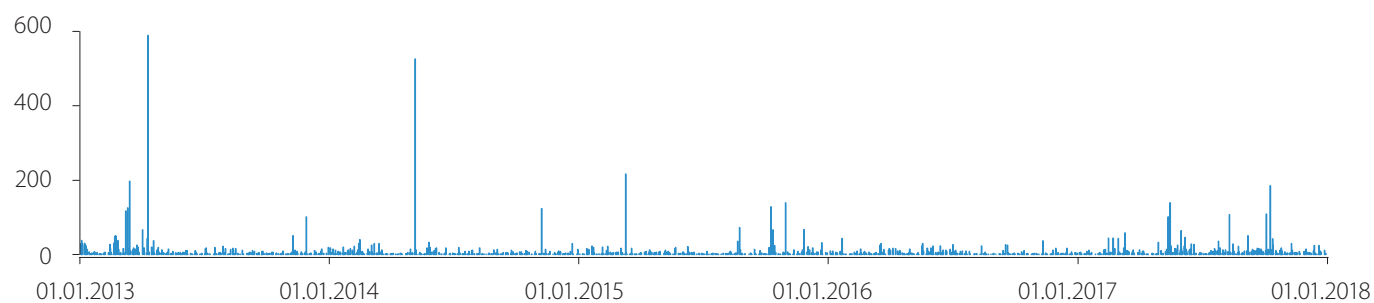
P/E = the period's last closing price of the share / earnings per share (EPS)

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

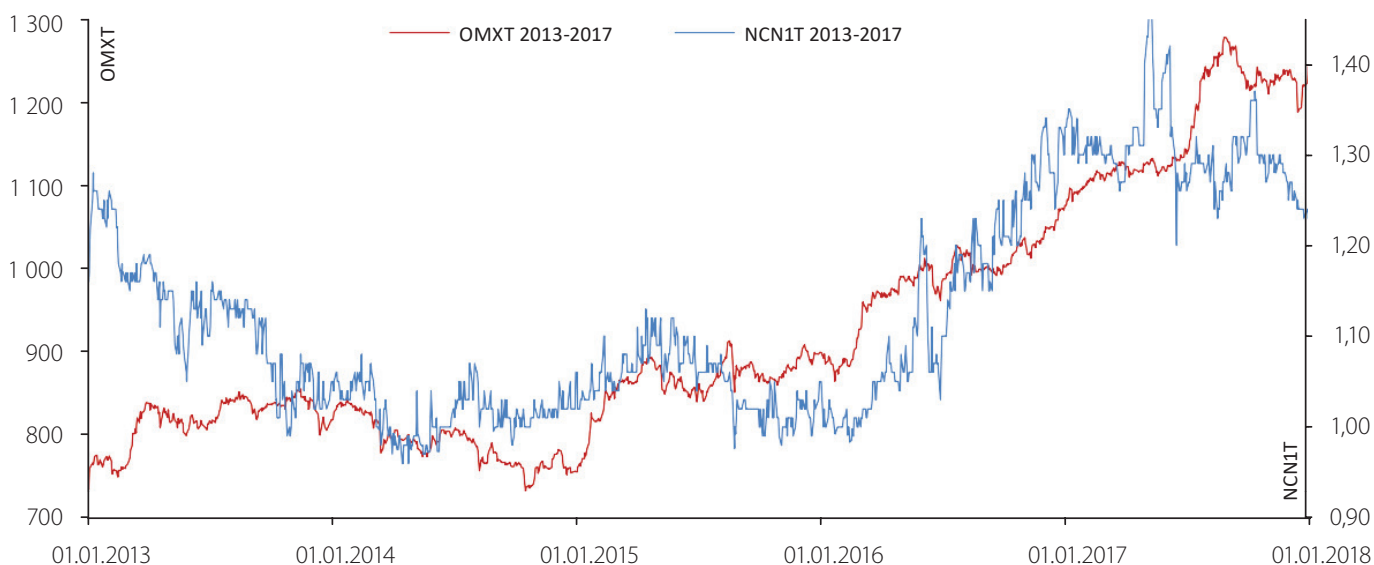
### Movements in the price and turnover of the Nordecon AS share in 2013-2017



## Movements in share price in euros



## Daily turnover in thousands of euros



	Index/equity	1 January 2013*	31 December 2017	+/-%
—	OMX Tallinn	734.2	1,242.12	69.18%
—	NCN1T	EUR 1.16	EUR 1.23	6.03%

\* Closing price on the NASDAQ OMX Tallinn Stock Exchange at 31 December 2012.

## Shareholder structure

### Largest shareholders in Nordecon AS at 31 December 2017

Shareholder	Number of shares	Ownership interest (%)
AS Nordic Contractors	16,507,464	50.99
Luksusjaht AS	4,172,385	12.89
ING Luxembourg S.A.	1,907,949	5.89
Rondam AS	1,000,000	3.09
SEB Pank AS clients	693,567	2.14
ASM Investments OÜ	519,600	1.60
State Street Bank and Trust Omnibus Account A Fund	368,656	1.14
Ain Tromp	303,960	0.94
Alforme OÜ	260,000	0.80
SEB Elu- ja Pensionikindlustus AS	255,000	0.79

## Shareholder structure of Nordecon AS at 31 December 2017

	Number of shareholders	Ownership interest (%)
Shareholders with interest exceeding 5%	3	69.77
Shareholders with interest from 1% to 5%	4	7.97
Shareholders with interest below 1%	1,747	17.74
Holder of own (treasury) shares	1	4.52
<b>Total</b>	<b>1,755</b>	<b>100</b>

## Shareholder structure by shareholder category at 31 December 2017

Shareholders by business line and legal form	Number of shares	Ownership interest (%)
Companies	24,942,241	77.04
Financial institutions (banks, investment funds)	3,686,962	11.39
Individuals	3,491,280	10.78
Insurance companies	255,000	0.79
<b>Total</b>	<b>32,375,483</b>	<b>100</b>

## Shareholder structure by country of shareholder's domicile at 31 December 2017

Shareholder's domicile	Number of shares	Ownership interest (%)
Estonia	29,381,422	90.75
Luxembourg	1,915,099	5.92
USA	412,918	1.28
Sweden	406,690	1.26
Lithuania	114,117	0.35
Finland	93,061	0.29
Latvia	36,989	0.11
Switzerland	5,777	0.02
Germany	4,264	0.01
Denmark	2,302	0.01
Other countries	2,844	0.01
<b>Total</b>	<b>32,375,483</b>	<b>100</b>

## Shares controlled by members of the council of Nordecon AS at 31 December 2017

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
<b>Total</b>	<b>16,639,144</b>	<b>51.39</b>

\* Companies controlled by the individual

## Shares controlled by members of the board of Nordecon AS at 31 December 2017

Board member	Number of shares	Ownership interest (%)
Gerd Müller Chairman of the Board	0	0.00
Priit Luman Member of the Board	200	0.00
Erkki Suurorg Member of the Board	0	0.00
Maret Tambek Member of the Board	0	0.00
Ando Voogma Member of the Board	0	0.00
<b>Total</b>	<b>200</b>	<b>0.00</b>





## EXTENSION TO THE KOHTLA-JÄRVE WASTEWATER TREATMENT PLANT

**Location:** Uus-Tehase 3, Kohtla-Järve, Ida- Viru county  
**Customer:** OÜ Järve Biopuhastus  
**Architect:** Aqua Consult Baltic OÜ  
**Construction period:** January 2016 – June 2017  
**Contractor:** Nordecon AS  
**Project manager:** Aivar Krüger



## 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 granted options for acquiring up to 1,618,755 shares in Nordecon AS. The then chairman of the board of Nordecon AS could acquire up to 291,380 shares, other members of the board could acquire up to 259,000 shares each and all other members of the executive staff could 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.

The annual general meeting which convened on 24 May 2017 approved some changes to the share option plan by which the term for exercising a share option was extended and the conditions for exercising the options granted to persons who at the grant date were members of the board were amended. An option may be exercised within 15 months after the general meeting has approved Nordecon AS's annual report for 2016. Depending on the time an option is exercised, its exercise by the board member is linked to the achievement of the Group's EBITDA target for 2016 (from 4,491 thousand euros to 11,228 thousand euros) or the Group's EBITDA target for 2017 (from 4,132 thousand euros to 8,264 thousand euros).

During the reporting period, options for the acquisition of 156,303 shares were exercised and options for the acquisition of 491,202 shares expired. At 31 December 2017, options for the acquisition of 971,250 shares could still be exercised.

## 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 *
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%
2017	1,384	30,757	0.045	45.5%

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

An extraordinary general meeting which convened on 2 October 2017 decided to distribute an additional dividend of 2,009 thousand euros (0.065 euros per share; number of shares 30,913 thousand). The decision on the distribution of an additional dividend was made in connection with additional cash inflow of 4,534 thousand euros from the disposal of assets related to real estate development.

In 2017, Nordecon AS reduced share capital by 1,457 thousand euros (0.045 euros per share). The reduction of share capital was paid out to shareholders in December 2017 (see also the chapter *Share and shareholders*).

The board proposes that in 2018 the company should distribute for 2017 a dividend of 0.06 euros per share. The total amount of the dividend to be distributed depends on the extent to which share options have been exercised at the date the list of shareholders entitled to a dividend is determined. Based on the list of shareholders as at 31 December 2017, the total amount of dividend to be distributed is 1,855 thousand euros. 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; and
- 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 1,943 thousand euros (0.06 euros per share). If the motion is approved, share capital will decrease from 18,263 thousand euros to 16,320 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 1,462,452 own shares held at 31 December 2017.

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.

## 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.

Gerd Müller	Chairman of the Board		13 April 2018
Priit Luman	Member of the Board		13 April 2018
Maret Tambek	Member of the Board		13 April 2018
Ando Voogma	Member of the Board		13 April 2018

# Consolidated financial statements

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

EUR '000 As at 31 December	Note	2017	2016
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	8	8,915	9,786
Trade and other receivables	9	35,193	21,055
Prepayments	10	1,642	1,644
Inventories	11	23,230	22,992
<b>Total current assets</b>		<b>68,980</b>	<b>55,477</b>
<b>Non-current assets</b>			
Investments in equity-accounted investees	12	1,888	1,640
Other investments		26	26
Trade and other receivables	9	8,950	10,816
Investment property	13	4,929	4,929
Property, plant and equipment	14	12,566	11,111
Intangible assets	15	14,639	14,623
<b>Total non-current assets</b>		<b>42,998</b>	<b>43,145</b>
<b>TOTAL ASSETS</b>		<b>111,978</b>	<b>98,622</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Borrowings	16	16,197	6,297
Trade payables	18	36,057	29,811
Other payables	19	5,654	5,389
Deferred income	20	3,651	4,128
Provisions	21	533	753
<b>Total current liabilities</b>		<b>62,092</b>	<b>46,378</b>
<b>Non-current liabilities</b>			
Borrowings	16	13,955	13,102
Trade payables	18	98	98
Other payables	19	71	117
Provisions	21	1,273	881
<b>Total non-current liabilities</b>		<b>15,397</b>	<b>14,198</b>
<b>TOTAL LIABILITIES</b>		<b>77,489</b>	<b>60,576</b>
<b>EQUITY</b>			
Share capital	22	18,263	19,720
Own (treasury) shares		-1,349	-1,550
Share premium		589	564
Statutory capital reserve	22	2,554	2,554
Translation reserve	22	1,995	1,549
Retained earnings		11,086	13,091
<b>Total equity attributable to owners of the parent</b>		<b>33,138</b>	<b>35,928</b>
<b>Non-controlling interests</b>		<b>1,351</b>	<b>2,118</b>
<b>TOTAL EQUITY</b>		<b>34,489</b>	<b>38,046</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>111,978</b>	<b>98,622</b>

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

EUR '000	Note	2017	2016
Revenue	25	231,387	183,329
Cost of sales	28	-222,692	-172,350
<b>Gross profit</b>		<b>8,695</b>	<b>10,979</b>
Marketing and distribution expenses		-623	-413
Administrative expenses	29	-6,936	-6,106
Other operating income	30	107	362
Other operating expenses	30	-141	-614
<b>Operating profit</b>		<b>1,102</b>	<b>4,208</b>
Finance income	31	2,901	463
Finance costs	31	-1,570	-1,088
<b>Net finance income/costs</b>		<b>1,331</b>	<b>-625</b>
Share of profit of equity-accounted investees	12	485	609
<b>Profit before income tax</b>		<b>2,918</b>	<b>4,192</b>
Income tax expense	32	-1,193	-259
<b>Profit for the period</b>		<b>1,725</b>	<b>3,933</b>
<b>Other comprehensive income</b>			
<b>Items that may be reclassified subsequently to profit or loss</b>			
Exchange differences on translating foreign operations		446	191
<b>Total other comprehensive income</b>		<b>446</b>	<b>191</b>
<b>TOTAL COMPREHENSIVE INCOME</b>		<b>2,171</b>	<b>4,124</b>
<b>Profit attributable to:</b>			
- Owners of the parent	23	1,388	3,044
- Non-controlling interests		337	889
<b>Profit for the period</b>		<b>1,725</b>	<b>3,933</b>
<b>Total comprehensive income attributable to:</b>			
- Owners of the parent		1,834	3,235
- Non-controlling interests		337	889
<b>Total comprehensive income for the period</b>		<b>2,171</b>	<b>4,124</b>
<b>Earnings per share attributable to owners of the parent:</b>			
Basic earnings per share (EUR)	23	0.04	0.10
Diluted earnings per share (EUR)	23	0.04	0.10





## EXTENSION TO THE PRODUCTION BUILDING OF AS METAPRINT

**Location:** Betooni 2, Pärnu  
**Customer:** MP Majad OÜ  
**Architect:** KAMP Arhitektid OÜ  
**Construction period:** April– December 2017  
**Contractor:** AS Eston Ehitus  
**Project manager:** Jaak Jalakas

# CONSOLIDATED STATEMENT OF CASH FLOWS

EUR '000	Note	2017	2016
<b>Cash flows from operating activities</b>			
Cash receipts from customers <sup>1</sup>		264,891	214,871
Cash paid to suppliers <sup>2</sup>		-239,592	-179,312
VAT paid		-6,971	-7,217
Cash paid to and for employees		-22,593	-20,208
Income tax paid		-605	-197
<b>Net cash used in/from operating activities</b>		<b>-4,870</b>	<b>7,937</b>
<b>Cash flows from investing activities</b>			
Paid on acquisition of property, plant and equipment		-343	-148
Paid on acquisition of intangible assets		-5	-25
Proceeds from sale of property, plant and equipment		49	160
Acquisition of a subsidiary		0	-15
Disposal of investments in subsidiaries and a joint venture		2,744	6
Loans provided		-45	-81
Repayment of loans provided		1,739	55
Dividends received		153	153
Interest received		368	2
<b>Net cash from investing activities</b>		<b>4,660</b>	<b>107</b>
<b>Cash flows from financing activities</b>			
Proceeds from loans received	16	9,207	,2,847
Repayment of loans received	16	-1,123	-2,262
Finance lease principal paid	16, 17	-2,252	-2,478
Interest paid		-752	-695
Dividends paid		-4,497	-1,068
Reduction of share capital		-1,384	-923
Sale of own shares		153	0
<b>Net cash used in financing activities</b>		<b>-648</b>	<b>-4,579</b>
<b>Net cash flow</b>		<b>-858</b>	<b>3,465</b>
<b>Cash and cash equivalents at beginning of year</b>		<b>9,786</b>	<b>6,332</b>
Effect of movements in foreign exchange rates		-13	-11
Decrease/increase in cash and cash equivalents		-858	3,465
<b>Cash and cash equivalents at end of year</b>		<b>8,915</b>	<b>9,786</b>

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

2 Line item Cash paid to suppliers includes VAT paid.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

## Equity attributable to owners of the parent

EUR '000	Share capital	Treasury shares	Capital reserve	Share premium	Translation reserve	Retained earnings	Total	Non-controlling interests	Total
<b>Balance at 31 December 2015</b>	<b>20,692</b>	<b>-1,582</b>	<b>2,554</b>	<b>547</b>	<b>1,358</b>	<b>10,970</b>	<b>34,539</b>	<b>1,528</b>	<b>36,067</b>
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
<b>Transactions with owners</b>									
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
<b>Total transactions with owners</b>	<b>-972</b>	<b>32</b>	<b>0</b>	<b>17</b>	<b>0</b>	<b>-923</b>	<b>-1,846</b>	<b>-145</b>	<b>-1,991</b>
<b>Balance at 31 December 2016</b>	<b>19,720</b>	<b>-1,550</b>	<b>2,554</b>	<b>564</b>	<b>1,549</b>	<b>13,091</b>	<b>35,928</b>	<b>2,118</b>	<b>38,046</b>
Profit for the period	0	0	0	0	0	1,388	1,388	337	1,725
Other comprehensive income	0	0	0	0	446	0	446	0	446
<b>Transactions with owners</b>									
Exercise of share options	0	153	0	0	0	0	153	0	153
Dividend distribution	0	0	0	0	0	-3,393	-3,393	-1,104	-4,497
Reduction of share capital	-1,457	48	0	25	0	0	-1,384	0	-1,384
<b>Total transactions with owners</b>	<b>-1,457</b>	<b>201</b>	<b>0</b>	<b>25</b>	<b>0</b>	<b>-3,393</b>	<b>-4,624</b>	<b>-1,104</b>	<b>-5,728</b>
<b>Balance at 31 December 2017</b>	<b>18,263</b>	<b>-1,349</b>	<b>2,554</b>	<b>589</b>	<b>1,995</b>	<b>11,086</b>	<b>33,138</b>	<b>1,351</b>	<b>34,489</b>

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

## 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 2017 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 2017 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 39 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 13 April 2018.

### 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 2017, the Group conducted most of its business in Estonia where the year was characterised by rapid economic growth. Estonia's gross domestic product (GDP) grew by 4.9% (2016: 1.6%), which is the past five years' fastest growth rate. GDP growth was driven by construction, information technology and communication as well as professional services, science and technology. The contribution of



the manufacturing sector also increased during the year. Volumes in the local construction market grew for the second year in a row. The growth rate for 2017 was 23%. In 2017, Estonian construction companies' total output in Estonia and abroad (combined, in current prices) was 2.5 billion euros, 18% up on 2016. Building and infrastructure construction accounted for 1.6 billion euros and 0.9 billion euros of the total respectively. Compared with 2016, construction of new buildings grew by 14% and the construction of infrastructure by a fourth. The number of new dwellings grew for the sixth year in a row. In 2017, 5,890 new dwellings received a permit of use, a rise of 1,158 on the prior year (2016: 4,732).

Demand for construction services continues to be strongly influenced by public investment, which in turn depends partly on the co-financing received from the EU structural funds. In 2018, public investment is expected to grow somewhat, particularly in the infrastructure segment.

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 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 larger regional hubs (Tallinn, Tartu, Pärnu and Narva). Although in 2017 the number and total value of transactions in the real estate market increased, it is still not possible to measure the sales prices (market values) of properties (plots) without buildings that are in the initial stage of development reliably using the sales comparison method. This is because the number of transactions in the regions where the Group's properties are located (except Tallinn) is too small.

Since it was not possible 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.

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 or investment properties 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).

The Group's investment properties are located in Pärnu and Tartu where in the reporting period the number of sales of properties without buildings was not sufficient to carry out a valuation using the sales comparison method. The Group estimated the values of properties 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 was determined based on those estimates and the valuation did not indicate a need for adjusting fair value as the reporting date. A sensitivity analysis of the valuations is presented in the notes to the consolidated financial statements.

### **Provisions and contingent liabilities (notes 21 and 34) (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, the quantities to be extracted and the sufficiency of the rehabilitation provision recognised once a year.

### **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 9.9% to 10.2%.

### **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.

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 Financial Reporting Standard and the Swedish, Ukrainian and Finnish subsidiaries prepare their financial statements in accordance with the Swedish, Ukrainian and Finnish generally accepted accounting principles 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 Financial Reporting Standard and the Group's Ukrainian associates prepare their financial statements in accordance with the Ukrainian generally accepted accounting principles. 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.





## CONSTRUCTION OF THE KEHRA COGENERATION PLANT

**Location:** Kehra, Anija parish, Harju county  
**Customer:** „Horizon“ Tselluloosi ja Paberi AS  
**Architect:** URBAS Energietechnik GmbH  
**Construction period:** February – December 2017  
**Contractor:** Nordecon Betoon OÜ  
**Project manager:** Mihhail Varep

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 2017	9.8438	33.4954
1 euro (EUR)	31 December 2016	9.5525	28.4226

\* 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:

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.

## 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

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*.

After initial recognition, goodwill is measured at cost less any 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 in 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.





## TERRACED HOUSES IN TABASALU (PHASES 1-2)

**Location:** Sarapuu 9a, Pähkli 15, Tabasalu, Harju county  
**Customer:** Pähkli Kodu OÜ  
**Architect:** PIN Arhitektid OÜ  
**Construction period:** March 2016 – March 2017  
**Contractor:** AS Eston Ehitus  
**Project manager:** Lauri Tromp

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 2017, the income tax rate was 20% (2016: 20%) and the amount of tax payable on a dividend distribution was calculated as 20/80 (2016: 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 34 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 2017, the income tax rates were as follows: Ukraine 18% (2016: 18%), Finland 20% (2016: 20%), Sweden 22% (2016: 22%) and Lithuania 15% (2016: 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).



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.

### Changes in presentation of information

In prior periods, the Group presented segment reporting for four segments: Buildings (European Union), Buildings (Ukraine), Infrastructure (European Union) and Other segments. The board of Nordecon AS decided to adjust the Group's segment reporting to its new internal reporting structure, which monitors the Group's operations in terms of two main operating segments. As a result, the segment reporting in the Group's financial statements was changed and from 1 January 2017 segment reporting is presented for two operating segments, Buildings and Infrastructure, as outlined in the segment reporting structure disclosed in note 25.

Prior period comparative information in the segment reporting disclosed in the consolidated financial statements for 2017 has been adjusted accordingly.

## 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 standards, amendments and interpretations effective for the reporting period

Amendments to IAS 7 – *Disclosure Initiative*. The amendments require more detailed disclosure of movements between the opening and closing balances of liabilities arising from financing activities. The Group has disclosed the movements in note 16.

### New standards, amendments and interpretations not yet effective

As at 31 December 2017, 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 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.

- 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.

The Group has been recognising revenue using a method whereby the stage of completion of a construction 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 IFRS 15 is implemented, this method will be replaced by a method where revenue is recognised based on the proportion of costs incurred to the total costs of a contract. The Group's board has analysed the possible impacts of IFRS 15 and has concluded that the change in accounting policy will not have a significant impact on the Group's results. The Group intends to implement IFRS 15 as from 1 January 2018 and to apply the cumulative impact approach on the initial application of the new standard.

- 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.

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.

- Amendments to IFRS 2: *Classification and Measurement of Share-based Payment Transactions* (effective for annual periods beginning on or after 1 January 2018). 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 40 – *Transfers of Investment Property* (effective for annual periods beginning on or after 1 January 2018). The amendments reinforce the principle for transfers into, or out of, investment property in IAS 40 Investment Property to specify that such a transfer should only be made when there has been a change in use of the property. Based on the amendments there is an actual change in use when 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 intention alone does not support a transfer. According to the Group's assessment, the amendments will not have a significant impact on its financial statements.

Other new or revised standards, interpretations and annual improvements to IFRSs are not 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 2017 it was still significant, accounting for around 25% of the Group's revenue (2016: around 32%). The largest public sector customers were the Ministry of Defence and the Estonian Road Administration whose contracts accounted for around 11% and 8% of the Group's revenue respectively (2016: 13% and 8%). 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 33.

## 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 2018

At the reporting date, the Group's current assets and current liabilities amounted to 68,980 thousand euros and 62,092 thousand euros respectively, current ratio was 1.11 (31 December 2016: 55,477 thousand euros and 46,378 thousand euros respectively, current ratio: 1.20). Current liabilities included borrowings of 16,197 thousand euros (31 December 2016: 6,297 thousand euros) of which 5,648 thousand euros were factoring liabilities (31 December 2016: nil euros). Based on its financing plan for 2018, the Group believes that in 2018 loan liabilities of 7,788 thousand euros, which at the reporting date were classified as current, can be refinanced. 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 68,980 thousand euros and 54,304 thousand euros respectively (current ratio would be 1.27).

In the light of the above, the Group's management is confident that in 2018 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 33.

## 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 2017, the hryvnia weakened against the euro by around 15%. For the Group's Ukrainian subsidiaries, this meant additional foreign exchange





## APARTMENT BUILDINGS AT HANE 2 AND 2A IN TALLINN

**Location:** Hane 2 ja 2a, Tallinn  
**Customer:** Nordecon AS, own development  
**Architect:** R-Konsult OÜ  
**Construction period:** October 2016 – September 2017  
**Contractor:** AS Eston Ehitus  
**Project manager:** Urmas Veskimeister



losses on the translation of their euro-denominated intra-Group loan commitments into the local currency. Relevant foreign exchange losses totalled 416 thousand euros (2016: 195 thousand euros). The exchange losses increased the translation reserve in equity. 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.

Between the beginning of 2018 and the date of release of this report, the Ukrainian hryvnia has strengthened slightly 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 3%. In 2017, 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 loss of 15 thousand euros (2016: an exchange gain of 18 thousand euros). The exchange loss has been recognised in other operating expenses. The translation of a loan provided to the Swedish subsidiary in euros into the local currency gave rise to an exchange loss of 35 thousand euros (2016: nil euros). The exchange loss has been recognised in finance costs.

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 rate of a finance lease contract signed in 2016 for the acquisition of an asphalt concrete plant.

Further information on the Group's market risk exposures is provided in note 33.

## Country risk

In the reporting period, the Group operated in Sweden, Ukraine and Finland. Revenues generated in Sweden, Ukraine and Finland accounted for 3%, 2% and 1% of the Group's total revenue respectively (2016: Sweden 4%, Ukraine 2% and Finland 1%). At the year-end, assets located in Sweden, Ukraine and Finland accounted for 1.3%, 1.1% and 0.7% of the Group's total assets respectively (2016: Sweden 1.5%, Ukraine 0.6% and Finland 0.9%).

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 2017. In 2017, adverse movements in the exchange rate caused the Group an exchange loss of around 416 thousand euros. In recent years, the Group's bidding activities in Ukraine have been intentionally conservative, with work primarily undertaken in the capital Kiev and the surrounding area. The ongoing military conflict, 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 and western Ukraine has stabilised, considering the backdrop, and companies have started to adapt to the new environment. In 2017, 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 primarily 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 (note 9).

## 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 33.

### 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.
- 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<sup>3</sup> has not yet been signed is determined based on the sales price of the

<sup>3</sup> 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.

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 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. The impact of possible changes in estimates on the value of 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.

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 37% (2016: 45%) assuming all other variables remained constant.

	EUR '000 As at 31 December	2017	2016
Total interest-bearing liabilities (note 16)		30,152	19,399
Cash and cash equivalents (note 8)		-8,915	-9,786
Net interest-bearing liabilities		21,237	9,613
Total equity		34,489	38,046
Invested capital (interest-bearing liabilities + equity)		64,641	57,445
Gearing ratio*		33%	17%

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

### Minimum capital requirements

At the reporting date, loan agreements signed with the banks required Nordecon AS to maintain the equity ratio (equity to equity and liabilities) at 30% or above (actual ratio at the end of 2017: 30.8%; 2016: 38.6%).

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; and
- 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*
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%
2017	1,384	30,757	0.045	45.5%

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

An extraordinary general meeting which convened on 2 October 2017 decided to distribute an additional dividend of 2,009 thousand euros (0.065 euros per share; number of shares 30,913 thousand). The decision on the distribution of an additional dividend was made in connection with additional cash inflow of 4,534 thousand euros from the disposal of assets related to real estate development.

The board proposes that in 2018 the company should distribute for 2017 a dividend of 0.06 euros per share. The total amount of the dividend to be distributed depends on the extent to which share options have been exercised at the date the list of shareholders entitled to a dividend is determined. Based on the list of shareholders as at 31 December 2017, the total amount of dividend to be distributed is 1,855 thousand euros. Own (treasury) shares do not grant the company any shareholder rights (note 24).

## NOTE 6. GROUP ENTITIES

At 31 December 2017, the consolidated financial statements of Nordecon Group included 20 subsidiaries (2016: 25), of which 15 were incorporated and domiciled in Estonia (2016: 19), 2 in Ukraine (2016: 3), 1 in Lithuania (2016: 1), 1 in Sweden (2016: 1) and 1 in Finland (2016: 1).

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

Subsidiary	Core business	Country of incorporation	Ownership interest 2017 (%)	Ownership interest 2016 (%)
Nordecon Betoon OÜ	Concrete works	Estonia	52	52
Eston Ehitus AS	Building construction	Estonia	100	100
Tariston OÜ (former Järva Teed AS and 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	Geodetic surveying	Estonia	100	100
Kalda Kodu OÜ	Real estate development	Estonia	100	100
Magasini 29 OÜ	Real estate development	Estonia	100	100
Eurocon OÜ <sup>4</sup>	Holding company (UKR)	Estonia	100	100
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
Eurocon BUD TOV	Building construction	Ukraine	100	100
Instar Ukraine TOV <sup>4</sup>	Real estate development	Ukraine	-	98
Estcon Oy	Concrete works	Finland	52	52
Nordecon Statyba UAB <sup>4</sup>	Building construction	Lithuania	80	80
SWENCN AB	Building construction (SE)	Sweden	60	60

<sup>4</sup> Dormant



In addition to the above subsidiaries, the Group includes OÜ Eesti Ehitus, OÜ Aspi, OÜ Linnaehitus, OÜ NOBE (all established for the protection of former business names) and Infra Ehitus OÜ. All of them are dormant and all are incorporated and domiciled in Estonia.

At 31 December 2017, the Group had interests in 5 associates (2016: 5) and no joint ventures (2016: 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:

	<b>EUR '000</b>	<b>2017</b>			
<b>Company</b>	<b>Nordecon Betoon OÜ</b>	<b>Kaurits OÜ</b>	<b>SWENCN AB</b>	<b>Total</b>	
Current assets	14,978	636	1,442	<b>17,056</b>	
Non-current assets	389	1,824	0	<b>2,213</b>	
Current liabilities	11,618	1,503	1,434	<b>14,555</b>	
Non-current liabilities	49	466	2,135	<b>2,650</b>	
Equity	3,700	491	-2,127	<b>2,064</b>	
Revenue	52,868	4,955	7,744	<b>65,567</b>	
Profit/loss	2,440	-348	-2,247	<b>-155</b>	
Non-controlling interests' share of profit/loss	1,171	-118	-899	<b>154</b>	
Interest held by non-controlling interests, %	48%	34%	40%		
Cash flows from operating activities	2,684	361	-3,147	<b>-102</b>	
Cash flows from financing activities	-2,324	-369	2,087	<b>-606</b>	
Cash flows from investing activities	100	0	0	<b>100</b>	
Net cash flow	460	-8	-1,060	<b>-608</b>	

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

At 31 December 2017, non-controlling interests in the Group's equity totalled 1,351 thousand euros (31 December 2016: 2,118 thousand euros), of which non-controlling interests in Nordecon Betoon OÜ, Kaurits OÜ and SWENCN AB accounted for 1,782 thousand, 293 thousand and -893 thousand euros respectively (31 December 2016: 1,715 thousand, 410 thousand and 6 thousand euros respectively). The remaining non-controlling interests, none of which is individually material for the Group, totalled 169 thousand euros (31 December 2016: -13 thousand euros).

## NOTE 7. CHANGES IN GROUP STRUCTURE

### 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, Tariston AS, were registered at the Commercial Register on 6 January 2017.

### Liquidation of a subsidiary

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

### Establishment of a subsidiary

On 16 February 2017, the Group's subsidiary Nordecon Betoon OÜ established a subsidiary, OÜ NOBE. The company was established to protect the trade name NOBE, which Nordecon Betoon OÜ has been using since spring 2017.

### Disposal of investments in a joint venture and some subsidiaries

On 31 July 2017, Nordecon AS signed an agreement for the sale of its 50% stake in the joint venture Unigate OÜ and 100% stakes in the subsidiaries Paekalda 2 OÜ, Paekalda 3 OÜ, Paekalda 7 OÜ and Paekalda 9 OÜ to AS Merko Ehitus. The purpose of the transaction was to resolve the ownership issues of the properties held by the entities and to dispose of the investments at a profit. The transaction generated a profit of 2,513 thousand euros (see note 31).

## NOTE 8. CASH AND CASH EQUIVALENTS

EUR '000	31 December 2017	31 December 2016
Current accounts	8,915	9,786
<b>Total cash and cash equivalents</b>	<b>8,915</b>	<b>9,786</b>

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% (2016: 0.01%). A significant share of the Group's current accounts are with the following banking groups: Swedbank AS, Luminor Bank AS and AS SEB Pank.

The Group's exposure to interest rate risk and a sensitivity analysis of the Group's financial assets and liabilities are disclosed in note 33.

## NOTE 9. TRADE AND OTHER RECEIVABLES

EUR '000				
Current items	Note	31 December 2017	31 December 2016	
Trade receivables	33	25,009	12,905	
Retentions receivable	26, 33	950	491	
Receivables from related parties	33, 36	19	19	
Loans to related parties	33, 36	0	275	
Other receivables	33	275	276	
<b>Total receivables and loans provided</b>		<b>26,253</b>	<b>13,966</b>	
Due from customers for contract work	26, 33	8,940	7,089	
<b>Total current trade and other receivables</b>		<b>35,193</b>	<b>21,055</b>	

EUR '000				
Non-current items	Note	31 December 2017	31 December 2016	
Loans to related parties	33, 36	8,492	10,351	
Other non-current receivables	33	458	465	
<b>Total non-current trade and other receivables</b>		<b>8,950</b>	<b>10,816</b>	

Trade receivables are presented net of the impairment allowance, which at the year-end amounted to -9 thousand euros (31 December 2016: -82 thousand euros). Changes in the impairment allowance are disclosed in note 33.

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 third parties 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.

At 31 December 2017, long-term loans to related parties consisted of loans to Ukrainian associates. At 31 December 2016, long-term loans to related parties consisted of loans to Ukrainian associates of 8,637 thousand euros and loans to the joint venture Unigate OÜ of 1,714 thousand euros.

### Long-term loans provided to the Ukrainian associates

EUR '000				
Loans to Ukrainian associates	Note	31 December 2017	31 December 2016	
Loans provided including accrued interest Of which	35	8,492	8,637	
Technopolis-2 TOV		938	998	
V.I. Center TOV		7,554	7,639	

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 other 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 issued in 2017 by a recognised independent international appraiser that valued the development projects to be carried out on the properties, the Group wrote down the loans related to the above development projects. The loans were written down by a total of 448 thousand euros, from 8,940 thousand euros to 8,492 thousand euros (notes 31, 33). The continuing slump in the Ukrainian economy and the weakening of the Ukrainian currency had lowered the prices of commercial real estate and demand to a level that made it necessary to write the investments 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



## HARMET OÜ'S MODULAR BUILDINGS PRODUCTION FACILITY

**Location:** Puusepa 4, Kumna, Harju county  
**Customer:** Harmet OÜ  
**Architect:** Maru Ehitus OÜ  
**Construction period:** August 2016 – July 2017  
**Contractor:** Nordecon Betoon OÜ  
**Project manager:** Taavi Kaiv



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 (deferral of the completion of the development projects). The carrying amount of the loans was determined based on the fair value of the properties held by the associates. Under the principles of IFRS 13 *Fair Value Measurement*, the fair value of the properties belongs to level 3.

The key valuation inputs applied were as follows:

- a discount rate of 12.7-14.5%;
- a vacancy rate of 20-35% for the warehouse and logistics centre and 10-60% for the commercial premises, depending on the year and the purpose of use of the rental premises;
- rental prices of 3-13 euros per square metre for the warehouse and logistics centre and 8-18 euros per square metre or 31-269 euros per day for the commercial premises, depending on the purpose of use of the rental premises;
- a forecast period of 2018-2024 plus the terminal year (growth 1.8%).

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 2,806 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 1,925 thousand euros;
- if the discount rate rose by 1 percentage point, the loans would have to be written down around 2,578 thousand euros.
- if the completion of the development projects, taken as a whole, was deferred by 1 year, the loans would have to be written down around 1,075 thousand euros.

## NOTE 10. PREPAYMENTS

EUR '000	31 December 2017	31 December 2016
Prepayments to suppliers	891	967
Prepaid taxes	366	320
Prepaid expenses	385	357
<b>Total prepayments</b>	<b>1,642</b>	<b>1,644</b>

Prepayments to suppliers comprise prepayments for services of 766 thousand euros (31 December 2016: 852 thousand euros) and for building materials of 125 thousand euros (31 December 2016: 115 thousand euros).

## NOTE 11. INVENTORIES

EUR '000	31 December 2017	31 December 2016
Raw materials and consumables	2,802	4,074
Work in progress	5,788	5,060
Apartments for sale	3,700	1,187
Properties purchased for development and pre-development costs	10,940	12,671
<b>Total inventories</b>	<b>23,230</b>	<b>22,992</b>

In 2017, inventories of 10,570 thousand euros (2016: 14,654 thousand euros) were recognised in Cost of sales.

Raw materials and consumables comprise inventories acquired for construction and road maintenance operations. In 2017 and 2016, there were no write-downs of materials and consumables.

Work in progress includes the costs related to construction contracts in progress at the reporting date (the costs related to work not yet delivered to customers). Work in progress also includes capitalised pre-development expenditures. Properties purchased for development and pre-development costs comprise:

	EUR '000	31 December 2017	31 December 2016
Capitalised pre-development costs		491	1,788
Properties purchased		10,449	10,883
<b>Total</b>		<b>10,940</b>	<b>12,671</b>
<b>Of which borrowing costs</b>		<b>1,200</b>	<b>1,245</b>

In 2017, capitalised borrowing costs accounted for 27% of the Group's total borrowing costs (2016: 18%).

*Apartments for sale* comprise the construction costs of apartments completed but not yet sold. In 2017 and 2016, the net realisable values of the apartments did not decrease below their carrying amounts and no write-downs were recognised. 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 10,449 thousand euros (2016: 10,883 thousand euros). A property acquired for development is carried in *Properties purchased for development and pre-development costs* 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 *Apartments for sale*. All 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 2017 and 2016, no properties (plots) acquired for development were written down. According to management's assessment, at 31 December 2017, properties purchased for development comprised properties of 5,262 thousand euros whose development will start within a year and properties of 5,187 thousand euros whose development will start 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 35.

### 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 1,530 to 1,940 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 1,733 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 462 thousand euros.

## NOTE 12. INVESTMENTS IN EQUITY-ACCOUNTED INVESTEEES

General information on equity-accounted investees:

		Group's interest			
Name and type of investee		Domicile	31 December 2017	31 December 2016	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%	Real estate development

The Group has no liabilities related to associates that are accounted for off the statement of financial position.

Carrying amount of investments in equity-accounted investees

	EUR '000	2017	2016
<b>Total investments in equity-accounted investees at beginning of period</b>		<b>1,640</b>	<b>1,179</b>
Investments sold		-89	0
Profit under the equity method		485	609
Dividends received		-148	-148
<b>Total investments in equity-accounted investees at end of period</b>		<b>1,888</b>	<b>1,640</b>

## Financial information of equity-accounted investees

### 2017

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	308	49	15	5,482	1,339	<b>7,193</b>
Non-current assets	6,279	123	0	441	850	<b>7,693</b>
Current liabilities	22,110	2,908	45	3,888	136	<b>29,087</b>
Equity	-15,523	-2,736	-30	1,917	2,053	<b>-14,319</b>
Revenue	0	0	0	26,863	8,886	<b>35,749</b>
Expenses	-3,350	-551	20	-26,454	-8,139	<b>-38,474</b>
Profit/loss	-3,350	-551	20	409	747	<b>-2,725</b>
Carrying amount of investment	0	0	0	882	1,006	<b>1,888</b>

The Group does not have a binding obligation to restore the negative equity of the Ukrainian associates. Therefore, relevant provisions have not been recognised. At 31 December 2017, the current liabilities of V.I. Center TOV included liabilities to the Group of 10,468 thousand euros (31 December 2016: 10,233 thousand euros). A major share of the expenses of V.I. Center TOV in both 2017 and 2016 was made up of foreign exchange losses. At 31 December 2017, the current liabilities of Tehnopolis 2 TOV included liabilities to the Group of 1,440 thousand euros (31 December 2016: 1,380 thousand euros). A major share of the expenses of Tehnopolis 2 TOV in both 2017 and 2016 was made up of foreign exchange losses.

On 31 July 2017, Nordecon AS disposed of its 50% stake in the joint venture Unigate OÜ.

### 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

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

## 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. The loss of the joint venture Unigate OÜ was recognised until the date of sale.

EUR '000		Recorded in 2017			Recorded in 2016		
	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	-1,474	0	-1,474	-742	0	-742	
Technopolis-2 TOV	-276	0	-276	-172	0	-172	
Kastani Kinnisvara OÜ	10	0	10	-7	0	-7	
Embach Ehitus OÜ	188	188	0	508	508	0	
Pigipada OÜ	366	366	0	219	219	0	
Unigate OÜ	-69	-69	0	-118	-118	0	
<b>Total</b>	<b>-1,255</b>	<b>485</b>	<b>-1,740</b>	<b>-312</b>	<b>609</b>	<b>-921</b>	

## NOTE 13. INVESTMENT PROPERTY

EUR '000	2017	2016
Investment property at 1 January	4,929	4,929
Investment property at 31 December	4,929	4,929

The period's rental income on investment property amounted to 13 thousand euros (2016: 10 thousand euros) and direct property management expenses totalled 3 thousand euros (2016: 2 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 35.

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 valid 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 415 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 12 euros per square metre for commercial and 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 hierarchy provided in IFRS 13 Fair Value Measurement, the fair values of investment properties belong to level 3 because they were measured using unobservable inputs. The valuation of investment properties at the end of 2017 had no impact on the Group's net profit and other comprehensive income for the period because the valuation results did not differ significantly from the carrying amounts of the investment properties in the Group's statement of financial position.

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 172 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 623 thousand euros. If the discount rate applied were 1 percentage point higher (the discount rates applied were 13% and 15%) (assuming that all other variables remain constant), investment property would have to be written down by around 20 thousand euros.

## NOTE 14. PROPERTY, PLANT AND EQUIPMENT

EUR '000	Land and buildings	Plant and equipment	Other items of PP&E	Assets under construction	Pre-payments	Total
<b>Cost</b>						
<b>At 31 December 2015</b>	<b>2,653</b>	<b>19,518</b>	<b>3,323</b>	<b>139</b>	<b>0</b>	<b>25,633</b>
Additions	106	3,324	77	0	0	3,507
Disposals	0	-1,447	-210	-25	0	-1,682
Effect of movements in exchange rates	0	-4	-1	0	0	-5
<b>At 31 December 2016</b>	<b>2,759</b>	<b>21,391</b>	<b>3,189</b>	<b>114</b>	<b>0</b>	<b>27,453</b>
Additions	0	2,026	216	14	50	2,306
Disposals	0	-698	-70	0	0	-768
Reclassification*	0	0	1,274	0	0	1,274
Effect of movements in exchange rates	0	-37	-3	0	0	-40
<b>At 31 December 2017</b>	<b>2,759</b>	<b>22,682</b>	<b>4,606</b>	<b>128</b>	<b>50</b>	<b>30,225</b>
<b>Accumulated depreciation</b>						
<b>At 31 December 2015</b>	<b>747</b>	<b>12,576</b>	<b>2,687</b>	<b>0</b>	<b>0</b>	<b>16,010</b>
Depreciation for the year	95	1,721	129	0	0	1,945
Disposals	0	-1,420	-189	0	0	-1,609
Effect of movements in exchange rates	0	-3	-1	0	0	-4
<b>At 31 December 2016</b>	<b>842</b>	<b>12,874</b>	<b>2,626</b>	<b>0</b>	<b>0</b>	<b>16,342</b>
Depreciation for the year	100	1,674	236	0	0	2,010
Disposals	0	-616	-58	0	0	-674
Effect of movements in exchange rates	0	-12	-7	0	0	-19
<b>At 31 December 2017</b>	<b>942</b>	<b>13,920</b>	<b>2,797</b>	<b>0</b>	<b>0</b>	<b>17,659</b>
<b>Carrying amount</b>						
<b>At 31 December 2015</b>	<b>1,906</b>	<b>6,942</b>	<b>636</b>	<b>139</b>	<b>0</b>	<b>9,623</b>
<b>At 31 December 2016</b>	<b>1,917</b>	<b>8,517</b>	<b>563</b>	<b>114</b>	<b>0</b>	<b>11,111</b>
<b>At 31 December 2017</b>	<b>1,817</b>	<b>8,762</b>	<b>1,809</b>	<b>128</b>	<b>50</b>	<b>12,566</b>

\* Reclassification comprises the reclassification of inventories to property, plant and equipment.

Group entities have secured their liabilities by mortgaging their land and buildings. Information on assets pledged as collateral is provided in note 35.

Depreciation expense has been recognised in *Cost of sales* in an amount of 1,935 thousand euros (2016: 1,907 thousand euros) (note 28) and in *Administrative expenses* in an amount of 75 thousand euros (2016: 31 thousand euros) (note 29).

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

	2017			2016		
EUR '000	Plant and equipment	Other items of PP&E	Total	Plant and equipment	Other items of PP&E	Total
Cost at 31 December	14,247	677	14,924	13,977	557	14,534
Carrying amount at 31 December	7,816	287	8,103	9,964	335	10,299

In 2017, the Group signed new finance lease contracts of 1,922 thousand euros (2016: 3,503 thousand euros).

## NOTE 15. INTANGIBLE ASSETS

	EUR '000	Goodwill	Software licences	Trademarks	Development expenditures	Total
<b>Cost</b>						
<b>At 31 December 2015</b>		<b>18,773</b>	<b>63</b>	<b>863</b>	<b>422</b>	<b>20,121</b>
Additions		0	0	0	17	17
<b>At 31 December 2016</b>		<b>18,773</b>	<b>63</b>	<b>863</b>	<b>439</b>	<b>20,138</b>
Additions		0	24	0	4	28
Disposals		0	-5	0	0	-5
<b>At 31 December 2017</b>		<b>18,773</b>	<b>82</b>	<b>863</b>	<b>443</b>	<b>20,161</b>
<b>Accumulated amortisation and impairment losses</b>						
<b>At 31 December 2015</b>		<b>4,597</b>	<b>52</b>	<b>863</b>	<b>0</b>	<b>5,512</b>
Amortisation for the year		0	3	0	0	3
<b>At 31 December 2016</b>		<b>4,597</b>	<b>55</b>	<b>863</b>	<b>0</b>	<b>5,515</b>
Amortisation for the year		0	11	0	0	11
Disposals		0	-4	0	0	-4
<b>At 31 December 2017</b>		<b>4,597</b>	<b>62</b>	<b>863</b>	<b>0</b>	<b>5,522</b>
<b>Carrying amount</b>						
<b>At 31 December 2015</b>		<b>14,176</b>	<b>11</b>	<b>0</b>	<b>422</b>	<b>14,609</b>
<b>At 31 December 2016</b>		<b>14,176</b>	<b>8</b>	<b>0</b>	<b>439</b>	<b>14,623</b>
<b>At 31 December 2017</b>		<b>14,176</b>	<b>20</b>	<b>0</b>	<b>443</b>	<b>14,639</b>

Capitalised development expenditures result from preparations made for the extraction of sand from the seabed. The preparations will continue in 2018.

Amortisation has been recognised in *Administrative expenses* in an amount of 11 thousand euros (2016: 3 thousand euros) (note 29).

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 a subsidiary. Therefore, for the purpose of impairment testing 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 subsidiary was determined using the discounted cash flow method and it was compared with the carrying amount of the investment in the subsidiary (including goodwill).

## Carrying amounts of goodwill allocated to the subsidiaries:

Company	Interest		Interest		EUR '000
	2017	2016	December 2017	December 2016	
<b>Nordecon AS</b>					
Goodwill	-	-	8,206	8,206	
Of which: Buildings			5,449	5,449	
Infrastructure			2,757	2,757	
<b>Subsidiaries</b>					
Nordecon Betocon OÜ	52%	52%	181	181	
Kaurits OÜ	66%	66%	2,022	2,022	
AS Eston Ehitus	100%	100%	3,767	3,767	
<b>Total</b>			<b>14,176</b>	<b>14,176</b>	

## General assumptions for determining value in use

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 2018-2021 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 39.7% and 60.3% respectively.
- The cost of debt was estimated based on the CGUs' actual loan interest rates, which ranged from 2.1% to 2.9%. 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 2018) 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 2018) 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 2018.
- 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 2018 and by applying to it growth rates suitable for subsequent years, estimated by reference to projections of the specific CGU's future operations.



## CONSTRUCTION OF THE “ATHENS CLASSROOM” FOR ROCCA AL MARE SCHOOL

**Location:** Vabaõhumuuseumi tee 8, Tallinn  
**Customer:** Rocca Al Mare Kooli SA  
**Architect:** Nordecon Betoon OÜ  
**Construction period:** February – March 2017  
**Contractor:** Nordecon Betoon OÜ  
**Project manager:** Mait Rõõmusaar



<b>Nordecon AS Infrastructure</b>		<b>Assumptions applied</b>
Forecast period		2018-2021 + terminal year
Discount rate		10.0%
Revenue change	2018: 27%, 2019-2021: compound annual growth rate (CAGR) 4%, terminal year: 1%	
Gross margin	2018: based on budget, 2019-2021: forecast gradual growth to up to 6.5%, terminal year: 6.5%	
Administrative expenses	See general assumptions, 2018-2021: ca 3% of revenue, terminal year: 3%	
Working capital	See general assumptions	
Capital expenditures	See general assumptions	
<b>Nordecon AS Buildings</b>		<b>Assumptions applied</b>
Forecast period		2018-2021 + terminal year
Discount rate		10.2%
Revenue change	2018: -12%, 2019-2021: compound annual growth rate (CAGR) 4%, terminal year: 1%	
Gross margin	2018: based on budget, 2019-2021: forecast gradual growth to up to 6.5%, terminal year: 6.5%	
Administrative expenses	See general assumptions, 2018-2021: ca 3% of revenue, terminal year: 3%	
Working capital	See general assumptions	
Capital expenditures	See general assumptions	
<b>Nordecon Betocon OÜ</b>		<b>Assumptions applied</b>
Forecast period		2018-2021 + terminal year
Discount rate		10.0%
Revenue change	2018: -23%, 2019-2021: compound annual growth rate (CAGR) 3.3%, terminal year: 1%	
Gross margin	2018: based on budget, 2019-2021: forecast gradual growth to up to 8.4%, terminal year: 8.4%	
Administrative expenses	See general assumptions, 2018-2021: ca 3.9% of revenue, terminal year: 3.8%	
Working capital	See general assumptions	
Capital expenditures	See general assumptions	
<b>Kaurits OÜ</b>		<b>Assumptions applied</b>
Forecast period		2018-2021 + terminal year
Discount rate		9.9%
Revenue change	2018: 26%, 2019-2021: compound annual growth rate (CAGR) 9.8%, terminal year: 1%	
Gross margin	2018: based on budget, 2019-2021: forecast gradual growth to up to 9%, terminal year: 9%	
Administrative expenses	See general assumptions, 2018-2021: ca 4% of revenue, terminal year: 3%	
Working capital	See general assumptions	
Capital expenditures	See general assumptions, 2018-2021: continuing renewal of machinery fleet.	
<b>Eston Ehitus AS</b>		<b>Assumptions applied</b>
Forecast period		2018-2021 + terminal year
Discount rate		10.0%
Revenue change	2018: 8%, 2019-2021: compound annual growth rate (CAGR) 6.6%, terminal year: 1%	
Gross margin	2018: based on budget, 2018-2020: forecast gradual growth to up to 7%, terminal year: 7%	
Administrative expenses	See general assumptions, 2018-2021: ca 2.2% of revenue, terminal year: 2.2% (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 2017 or in 2016.

### 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 profit 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: 0.5 percentage points for Nordecon AS Infrastructure, 1.2 percentage points for Nordecon AS Buildings, 1.5 percentage points for Kaurits OÜ, and 1.5 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 2,757 thousand euros and the goodwill allocated to Nordecon AS Buildings would have to be written down by 3,706 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, the goodwill allocated to Nordecon AS Buildings would have to be written down by 4,982 thousand euros and the goodwill allocated to Eston Ehitus AS would have to be written down by 699 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 2017	31 December 2016
Overdraft liabilities			7,787	1,732
Current portion of non-current borrowings, of which:			2,761	4,565
Bank loans			1,117	2,485
Other long-term loans			0	10
Finance lease liabilities		17	1,644	2,070
Short-term bank loans			0	0
Factoring liabilities			5,649	0
<b>Total current borrowings</b>			<b>16,197</b>	<b>6,297</b>

### Non-current borrowings:

	EUR '000	Note	31 December 2017	31 December 2016
Total non-current borrowings			16,716	17,667
Of which current portion			2,761	4,565
<b>Non-current portion, of which:</b>			<b>13,955</b>	<b>13,102</b>
Bank loans			4,122	3,557
Other long-term loans			9	0
Overdrafts			5,879	5,879
Finance lease liabilities		17	3,932	3,645
Derivative financial instruments			13	21

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.

## Details of loans as at 31 December 2017:

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%	2,484	0	0	2,484	30 April 2018
Overdraft	EUR	4%	5,118	0	0	5,118	30 April 2018
Overdraft	EUR	Bank's base rate+ 2.0%	0	5,879	0	5,879	31 January 2019
Overdraft	EUR	6M EURIBOR+ 2.5%	185	0	0	185	30 June 2018
Investment loan	EUR	6M EURIBOR+ 3.2%	481	0	0	481	10 June 2018
Investment loan	EUR	6M EURIBOR+ 1.8%	36	36	3	75	25 January 2020
Investment loan	EUR	6M EURIBOR+ 4.0%	0	1,850	0	1,850	5 June 2019
Investment loan	EUR	3M EURIBOR+ 3.7%	0	890	0	890	29 March 2019
Investment loan	EUR	3M EURIBOR+ 3.7%	0	745	0	745	29 March 2019
Investment loan	EUR	4.25%	600	598	0	1,198	24 December 2019
Working capital loan	EUR	6.0%	0	9	0	9	31 December 2019
Factoring liability	EUR	6M EURIBOR+2.5%	5,525	0	0	5,525	31 December 2018
Factoring liability	EUR	0%	124	0	0	124	24 January 2019
<b>Total loans</b>			<b>14,553</b>	<b>10,007</b>	<b>3</b>	<b>24,563</b>	

Negotiations with banks regarding refinancing of the Group's loan commitments will be held from March to May 2018. The decisions which will be made will affect all loan liabilities that mature in the first half of 2018.

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

## 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
<b>Total loans</b>			<b>4,226</b>	<b>9,436</b>	<b>0</b>	<b>13,662</b>	

## Reconciliation of financial liabilities to cash flows:

EUR '000	Note	2017	2016
<b>Balance of financial liabilities at beginning of period</b>		<b>19,399</b>	<b>20,813</b>
Proceeds from loans received		9,207	2,847
Repayment of loans received		-1,123	-2,262
Finance lease principal paid	17	-2,252	-2,478
Addition of finance lease liabilities (new contracts)	17	2,118	3,568
Change in factoring liabilities		5,649	-2,143
Change in the value of derivatives		8	21
Offsetting of loan liabilities against sales invoices		-2,849	-967
Effect of movements in exchange rates	17	-5	0
<b>Balance of financial liabilities at end of period</b>		<b>30,152</b>	<b>19,399</b>

# NOTE 17. FINANCE AND OPERATING LEASES

## Finance leases

The Group as a lessee

	EUR '000	Note	2017	2016
<b>Finance lease liabilities at beginning of year</b>			<b>5,715</b>	<b>4,657</b>
Effect of movements in exchange rates			-5	0
Addition			2,118	3,568
Principal payments made			-2,252	-2,510
<b>Finance lease liabilities at end of year, of which falling due:</b>			<b>5,576</b>	<b>5,715</b>
Not later than 1 year		16	1,644	2,070
Later than 1 year and not later than 5 years		16	3,932	3,645
Base currency EUR			5,576	5,662
Base currency UAH			0	53
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			159	170
Frequency of payments			Monthly	Monthly

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

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

EUR '000	2017					2016
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	1,756	112	1,644	2,208	138	2,070
Later than 1 year and not later than 5 years	4,073	141	3,932	3,803	158	3,645
<b>Total</b>	<b>5,829</b>	<b>253</b>	<b>5,576</b>	<b>6,011</b>	<b>296</b>	<b>5,715</b>

\* 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	2017	2016
Cars		865	833
Construction equipment		3,534	2,830
Premises		742	754
IT equipment		332	301
<b>Total operating lease expenses</b>		<b>5,473</b>	<b>4,718</b>

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

	EUR '000	31 December 2017	31 December 2016
Not later than 1 year	Future minimum lease rentals	1,514	1,426
Later than 1 year and not later than 5 years	Future minimum lease rentals	2,881	2,529

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 2017	31 December 2016
Trade payables	33	26,824	19,547
Accrued expenses related to contract work	33	7,973	9,328
Payables to related parties	36	1,260	936
<b>Total current trade payables</b>		<b>36,057</b>	<b>29,811</b>
Trade payables	33	98	98
<b>Total non-current trade payables</b>		<b>98</b>	<b>98</b>

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 2017	31 December 2016
Payables to employees	33	3,761	3,259
Taxes payable		1,832	2,021
Accrued expenses	33	50	72
Miscellaneous payables	33	11	37
<b>Total current other payables</b>		<b>5,654</b>	<b>5,389</b>
Miscellaneous payables	33	71	117
<b>Total non-current other payables</b>		<b>71</b>	<b>117</b>

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 2017	31 December 2016
Value added tax	221	559
Personal income tax	426	437
Social security tax	864	785
Other taxes	321	240
<b>Total taxes payable</b>	<b>1,832</b>	<b>2,021</b>

## NOTE 20. DEFERRED INCOME

EUR '000	Note	31 December 2017	31 December 2016
Due to customers for contract work	26	3,649	4,034
Advances received for goods and services		2	94
<b>Total deferred income</b>		<b>3,651</b>	<b>4,128</b>

## NOTE 21. PROVISIONS

EUR '000	31 December 2017	31 December 2016
Current provisions	533	753
Non-current provisions	1,273	881
<b>Total provisions</b>	<b>1,806</b>	<b>1,634</b>

## 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)	2017	2016
<b>Opening balance</b>	<b>1,166</b>	<b>1,124</b>
Provisions used and reversed	-480	-562
Provisions recognised	563	604
<b>Closing balance, of which:</b>	<b>1,249</b>	<b>1,166</b>
Current portion	400	519
Non-current portion	849	647

Other provisions (EUR '000)	2017	2016
<b>Opening balance</b>	<b>468</b>	<b>469</b>
Provisions recognised	235	124
Provisions used	-146	-125
<b>Closing balance, of which:</b>	<b>557</b>	<b>468</b>
Current portion	133	234
Non-current portion	424	234

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.

## NOTE 22. EQUITY

### Share capital

EUR '000	2017	2016
At 1 January	19,720	20,692
Reduction of share capital	-1,457	-972
<b>At 31 December</b>	<b>18,263</b>	<b>19,720</b>

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 2016: 2,554 thousand euros).

## Translation reserve

The translation reserve comprises foreign exchange differences on 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 1,995 thousand euros (31 December 2016: 1,549 thousand euros). The change is attributable to the weakening of the Ukrainian subsidiaries' functional currency against the euro.

## Dividends

In 2017, the parent Nordecon AS distributed a dividend of 3,393 thousand euros (2016: 923 thousand euros) (note 5).

## Reduction of share capital

On 24 May 2017 the annual general meeting of Nordecon AS adopted a resolution on the reduction of the company's share capital and on 15 September 2017 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 1,457 thousand euros, from 19,720 thousand euros to 18,263 thousand euros. Share capital was reduced by reducing the book value of the shares by 0.045 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 1,384 thousand euros (0.045 euros per share) was paid out to shareholders on 18 December 2017. No payments were made to Nordecon AS for own shares held by the company.

## 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.

	2017	2016
Profit for the year attributable to owners of the parent (EUR '000)	1,388	3,044
Weighted average number of shares (in thousands)	30,913	30,757
Basic earnings per share (EUR)	0.04	0.10
Diluted earnings per share (EUR)	0.04	0.10

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 could be subscribed for under the option agreements signed with the Group's executive management differed 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.

The annual general meeting which convened on 24 May 2017 approved some changes to the share option plan by which the term for exercising a share option was extended and the conditions for exercising the options granted to persons who at the grant date were members of the board were amended. An option may be exercised within 15 months after the general meeting has approved Nordecon AS's annual report for 2016. Depending on the time an option is exercised, its exercise by the board member is linked to the achievement of the Group's EBITDA target for 2016 (from 4,491 thousand euros to 11,228 thousand euros) or the Group's EBITDA target for 2017 (from 4,132 thousand euros to 8,264 thousand euros).

During the reporting period, options for the acquisition of 156,303 shares were exercised and options for the acquisition of 491,202 shares expired. At 31 December 2017, options for the acquisition of 971,250 shares could still be exercised.

## 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
- Infrastructure

Reportable operating segments are engaged in the provision of construction services in the buildings (includes our own development activities) and infrastructure segments.

### 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.



## 2017

EUR '000	Buildings	Infrastructure	Total
<b>Total revenue</b>	<b>174,449</b>	<b>56,530</b>	<b>230,979</b>
Of which: general contracting services	164,977	50,052	215,029
subcontracting services	2,938	0	2,938
own development activities	6,533	0	6,533
road maintenance services	0	5,504	5,504
rental services	0	974	974
Inter-segment revenue	-2	-195	-197
<b>Revenue from external customers</b>	<b>174,447</b>	<b>56,335</b>	<b>230,782</b>
<b>Gross profit of the segment</b>	<b>7,035</b>	<b>2,292</b>	<b>9,327</b>
Depreciation and amortisation	-131	-1,890	-2,021
<b>Segment assets</b>	<b>72,640</b>	<b>19,134</b>	<b>91,774</b>
Investments in equity-accounted investees	882	1,006	1,888
Capital expenditures	206	2,078	2,284

## 2016

EUR '000	Buildings	Infrastructure	Total
<b>Total revenue</b>	<b>134,554</b>	<b>45,817</b>	<b>180,371</b>
Of which: general contracting services	126,854	39,936	166,790
subcontracting services	2,520	0	2,520
own development activities	5,180	0	5,180
road maintenance services	0	5,196	5,196
rental services	0	685	685
Inter-segment revenue	0	0	0
<b>Revenue from external customers</b>	<b>134,554</b>	<b>45,817</b>	<b>180,371</b>
<b>Gross profit of the segment</b>	<b>10,154</b>	<b>1,764</b>	<b>11,918</b>
Depreciation and amortisation	-95	-1,851	-1,946
<b>Segment assets</b>	<b>65,681</b>	<b>17,986</b>	<b>83,667</b>
Investments in equity-accounted investees	853	787	1,640
Capital expenditures	231	3,251	3,482

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 2017 relevant revenue amounted to 23,148 thousand euros (2016: 23,333 thousand euros). The revenue is reported in the *Buildings segment*.

Buildings revenue and gross profit include revenue and gross profit from the Group's own development activities, which in 2017 amounted to 6,533 thousand euros and 852 thousand euros respectively (2016: 5,180 thousand euros and 771 thousand euros respectively).

The Group's construction contract revenue for 2017 amounted to 221,468 thousand euros (2016: 166,501 thousand euros).

## Adjustments

EUR '000	2017	2016
Depreciation and amortisation for reportable segments	-2,021	-1,946
Adjustments	0	-2
<b>Consolidated depreciation and amortisation</b>	<b>-2,021</b>	<b>-1,948</b>



## BRF STYRMANNEN 49

**Location:** Huddinge, Stockholm  
**Customer:** Innovation Properties AB  
**Architect:** Hultman-Vogt AB  
**Construction period:** January 2016 – May 2017  
**Contractor:** SweNCN AB  
**Project manager:** Olev Mötshärg

## Reconciliation of segment revenues

EUR '000	2017	2016
Total revenues for reportable segments	230,979	180,371
Elimination of inter-segment revenues	-197	0
Unallocated revenue	605	2,958
<b>Total consolidated revenue</b>	<b>231,387</b>	<b>183,329</b>

## Reconciliation of segment profit

EUR '000	2017	2016
Total profit for reportable segments	9,327	11,918
Unallocated loss	-632	-939
<b>Consolidated gross profit</b>	<b>8,695</b>	<b>10,979</b>
Unallocated expenses:		
Marketing and distribution expenses	-623	-413
Administrative expenses	-6,936	-6,106
Other operating income and expenses	-34	-252
<b>Consolidated operating profit</b>	<b>1,102</b>	<b>4,208</b>
Finance income	2,901	463
Finance costs	-1,570	-1,088
Share of profit of equity-accounted investees	485	609
<b>Consolidated profit before tax</b>	<b>2,918</b>	<b>4,192</b>

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

## Reconciliation of segment assets

EUR '000	31 December 2017	31 December 2016
Total assets of reportable segments	91,774	83,667
Investments in equity-accounted investees	1,888	1,640
Inter-segment eliminations	-95	0
Unallocated assets	18,411	13,315
<b>Total consolidated assets</b>	<b>111,978</b>	<b>98,622</b>

## Geographical information

Revenue (EUR '000)	2017	2016
Estonia	217,558	169,291
Ukraine	4,138	4,318
Finland	2,950	2,593
Sweden	7,744	7,520
Elimination of inter-segment revenues	-1,003	-393
<b>Total revenue</b>	<b>231,387</b>	<b>183,329</b>
Assets based on geographical location* (EUR '000)	2017	2016
Estonia	32,090	30,493
Ukraine	45	170
<b>Total assets</b>	<b>32,135</b>	<b>30,663</b>

\* 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

<b>Construction contracts in progress from date of commencement of the projects (EUR '000)</b>	<b>31 December 2017</b>	<b>31 December 2016</b>
Contract costs recognised using the stage of completion method	137,272	126,498
Estimated gross profit	6,979	8,246
Contract revenue recognised using the stage of completion method	144,251	134,744
Progress billings	138,960	131,689
<b>Difference between total progress billings and revenue recognised using stage of completion method</b>	<b>-5,291</b>	<b>-3,055</b>
Of which due from customers (note 9)	8,940	7,089
Of which due to customers (note 20)	3,649	4,034

At the reporting date, retentions receivable under construction contracts totalled 950 thousand euros (31 December 2016: 491 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:

<b>EUR '000</b>	<b>2017</b>	<b>2016</b>		<b>2017</b>	<b>2016</b>
Change in revenue +5%	10,923	9,219	Change in revenue -5%	-19,615	-14,706
Change in gross profit	566	552	Change in gross profit	-1,237	-1,085

## NOTE 27. PARTICIPATION IN JOINT OPERATIONS

The Group participates in joint operations that are conducted under partnership contracts. The contracts set forth the share of revenue each party is entitled to and the share of expenses to be borne by each partner. The parties have not established companies for conducting the joint operations, therefore each party recognises in its financial statements the assets used in construction activities, the associated liabilities, the expenses incurred and the revenue earned in accordance with the business entity principle and no adjustments or other consolidation procedures are performed in preparing the consolidated financial statements. All joint operations are in Estonia.

<b>Name of joint operation</b>	<b>Group's interest</b>		<b>Total value of contract</b>	
<b>EUR '000</b>	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
Smarten logistics centre, phase 2	0%	50%	0	3,739
WOHO commercial and residential building	50%	0%	11,828	0
Smarten logistics centre, phase 3	50%	0%	3,798	0
Omniva logistics centre	50%	0%	10,106	0

## NOTE 28. COST OF SALES

<b>EUR '000</b>	<b>2017</b>	<b>2016</b>
Cost of materials, goods and services	202,127	153,569
Personnel expenses	18,521	16,702
Depreciation expense (note 14)	1,935	1,914
Other expenses	109	165
<b>Total cost of sales</b>	<b>222,692</b>	<b>172,350</b>

In 2017 the Group had, on average, 735 staff (2016: 684) of whom 679 were working under employment contracts, 38 were working under contracts under the law of obligations (excluding self-employed people) and 18 were members of legal persons' management or control bodies (2016: 625, 41 and 18 respectively).



## NOTE 29. ADMINISTRATIVE EXPENSES

	EUR '000	2017	2016
Cost of materials, goods and services		2,335	2,211
Personnel expenses		4,351	3,699
Depreciation and amortisation expense (notes 14 and 15)		86	34
Other expenses		164	162
<b>Total administrative expenses</b>		<b>6,936</b>	<b>6,106</b>

## NOTE 30. OTHER OPERATING INCOME AND EXPENSES

### Other operating income

	EUR '000	2017	2016
Gain on sale of property, plant and equipment		1	143
Gain from a bargain purchase (negative goodwill)		0	139
Other income		106	80
<b>Total other operating income</b>		<b>107</b>	<b>362</b>

### Other operating expenses

	EUR '000	Note	2017	2016
Loss on sale and write-off of property, plant and equipment			10	0
Net loss on recognition and reversal of impairment losses on receivables		33	37	154
Other expenses			94	460
<b>Total other operating expenses</b>			<b>141</b>	<b>614</b>

## NOTE 31. FINANCE INCOME AND COSTS

### Finance income

	EUR '000	2017	2016
Interest income on loans provided		372	454
Gain on disposal of investments in subsidiaries and a joint venture		2,513	3
Other finance income		16	6
<b>Total finance income</b>		<b>2,901</b>	<b>463</b>

Interest income on loans provided includes interest income of 346 thousand euros (2016: 423 thousand euros) on loans provided to related parties (note 36).

The gain on disposal of investments in subsidiaries and a joint venture for 2017 of 2,513 thousand euros was earned on the disposal of a joint venture. On 31 July 2017, Nordecon AS sold its 50% interest in the joint venture Unigate OÜ and its 100% interest in the subsidiaries Paekalda 2 OÜ, Paekalda 3 OÜ, Paekalda 7 OÜ and Paekalda 9 OÜ.

### Finance costs

	EUR '000	Note	2017	2016
Interest expense			655	681
Foreign exchange loss			451	195
Other finance costs		9	464	212
<b>Total finance costs</b>			<b>1,570</b>	<b>1,088</b>

Other finance costs include a write-down of 448 thousand euros (2016: nil euros) made in 2017 to the loans provided for the real estate projects of the Group's two Ukrainian associates.

## NOTE 32. INCOME TAX EXPENSE

	EUR '000	%	2017	%	2016
Profit for the year			1,725		3,933
Income tax expense			-1,193		-259
<b>Profit before tax</b>			<b>2,918</b>		<b>4,192</b>
Income tax using the tax rate of the parent company		-20.15%	-588	0%	0
Income tax on dividends distributed by Estonian Group entities		-19.71%	-575	-5.84%	-245
Income tax in foreign jurisdictions		-1.02%	-30	-0.33%	-14
<b>Total income tax expense</b>		<b>-40.88%</b>	<b>-1,193</b>	<b>-6.17%</b>	<b>-259</b>

Under the Estonian Income Tax Act, the profits earned and losses incurred by companies operating in Estonia are not subject to income tax. In 2017, 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 2017, the Group's Estonian subsidiaries paid a net dividend of 2,300 thousand euros, which gave rise to income tax expense of 575 thousand euros (2016: 1,081 thousand euros and 245 thousand euros respectively). The share of dividends paid to non-controlling interests amounted to 1,104 thousand euros (2016: 145 thousand euros).

## NOTE 33. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

### Credit risk

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

	EUR '000	Note	2017	2016
Cash and cash equivalents		8	8,915	9,786
Trade receivables		9	25,009	12,905
Retentions receivable		9	950	491
Receivables from related parties		9	19	19
Loans to related parties		9	8,492	10,626
Other receivables		9	733	741
Due from customers for contract work		9	8,940	7,089
<b>Total</b>			<b>53,058</b>	<b>41,657</b>

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, Luminor Bank AS and AS SEB Pank. The banks do not have separate Moody's credit ratings. Swedbank AS's parent Swedbank AB and AS SEB Pank's parent Skandinaviska Enskilda Banken AB both have Moody's long-term credit rating Aa3. Luminor Bank AS's owners Nordea Bank AB and DNB ASA (through Luminor Group AB, a holding company registered in Sweden) have Moody's long-term credit ratings Aa3 and Aa2 respectively.

## Financial assets by geographical origin at the reporting date:

	EUR '000	2017	2016
Estonia		42,541	30,620
Ukraine		8,582	8,746
Sweden		1,174	1,421
Lithuania		12	10
Finland		749	860
<b>Total</b>		<b>53,058</b>	<b>41,657</b>

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

	31 December 2017			31 December 2016	
EUR '000	Trade receivables	Impairment allowance	Trade receivables	Impairment allowance	
Not past due	22,779	0	11,935	0	
0-30 days past due	1,639	0	350	0	
31-180 days past due	432	0	580	0	
Over 180 days past due *	168	-9	122	-82	
<b>Total</b>	<b>25,018</b>	<b>-9</b>	<b>12,987</b>	<b>-82</b>	

\* 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	2017	2016
Impairment allowance at 1 January		-82	-47
Impaired items recovered during the year		0	2
Impairment losses recognised during the year		-37	-156
Items written off as uncollectible during the year		110	119
<b>Impairment allowance at 31 December</b>		<b>-9</b>	<b>-82</b>

In 2017, recognition of impairment losses on receivables and recovery of previously impaired items gave rise to a net loss of 37 thousand euros (2016: a net loss of 154 thousand euros) (note 30). Items written down comprise a number of small receivables.

During the year, receivables of 110 thousand euros that had been written down in earlier periods were written off as uncollectible (2016: 119 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 2017	
Financial liability*	Carrying amount	Contractual cash flows	Less than 1 year	1-2 years	More than 3 years
Overdraft liabilities (note 16)	13,666	13,908	7,882	6,026	0
Bank and other loans (note 16)	5,248	5,518	1,177	4,341	0
Finance lease liabilities (note 17)	5,576	5,829	1,756	1,459	2,614
Factoring liabilities (note 16)	5,649	5,792	5,792	0	0
Trade payables (note 18)	36,155	36,155	36,057	98	0
Other payables (note 19)	3,893	3,893	3,822	71	0
<b>Total</b>	<b>70,187</b>	<b>71,095</b>	<b>56,486</b>	<b>11,995</b>	<b>2,614</b>

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

Financial liability*	EUR '000			31 December 2016	
	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
<b>Total</b>	<b>51,835</b>	<b>52,594</b>	<b>38,807</b>	<b>12,302</b>	<b>1,485</b>

\* 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 351 thousand euros with a fixed interest rate of 4.0% per year;
- an overdraft facility of 215 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 5,500 thousand euros for speeding up the recovery of receivables with long settlement terms. At the year-end, the full amount of the overdraft facility was in use.

#### Financial liabilities by geographical origin at the reporting date:

EUR '000	2017	2016
Estonia	67,282	50,450
Ukraine	350	358
Sweden	1,055	877
Lithuania	1	1
Finland	266	149
<b>Total</b>	<b>68,954</b>	<b>51,835</b>

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 1,000 thousand euros. At 31 December 2017, 557 thousand euros (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 36,275 thousand euros (2016: 32,199 thousand euros) whose maturities extend to 2022. 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 (2009-2012 and 2015 and 2016) 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 2018

Based on the financing plan in place, the Group believes that in 2018 loan liabilities of 7,788 thousand euros, classified as current items at the reporting date, can be refinanced.



## 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:

	'000	31 December 2017		
		EUR	SEK	UAH
Cash and cash equivalents		8,793	752	1,508
Current receivables		35,533	12,257	1,917
Non-current receivables		8,949	0	0
<b>Total</b>		<b>53,275</b>	<b>13,009</b>	<b>3,425</b>
Current liabilities		59,841	14,119	27,349
Non-current liabilities		15,396	0	0
<b>Total</b>		<b>75,237</b>	<b>14,119</b>	<b>27,349</b>
<b>Net exposure</b>		<b>-21,962</b>	<b>-1,110</b>	<b>-23,924</b>

	'000	31 December 2016		
		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
<b>Total</b>		<b>41,717</b>	<b>13,878</b>	<b>3,684</b>
Current liabilities		44,448	13,771	13,826
Non-current liabilities		14,198	0	0
<b>Total</b>		<b>58,646</b>	<b>13,771</b>	<b>13,826</b>
<b>Net exposure</b>		<b>-16,929</b>	<b>107</b>	<b>-10,142</b>

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

	Date	Swedish krona (SEK)	Ukrainian hryvnia (UAH)
1 euro (EUR)	31 December 2017	9.8438	33.4954
1 euro (EUR)	31 December 2016	9.5525	28.2896

### 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 2017	31 December 2016
Strengthening of euro by 10%		77	31
Weakening of euro by 10%		-94	-38

## Interest rate risk

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

	EUR '000	2017	2016
<b>Financial instruments with a fixed interest rate</b>			
Financial assets (loans provided to related parties and legal persons) (notes 9 and 36)		8,492	10,626
Financial liabilities (note 16)		6,325	1,807
<b>Net exposure</b>		<b>2,167</b>	<b>8,819</b>
<b>Financial instruments with a floating interest rate</b>			
Financial assets (cash and cash equivalents) (note 8)		8,915	9,786
Financial liabilities (including finance lease liabilities) (notes 16 and 17)		23,814	17,570
<b>Net exposure</b>		<b>-14,899</b>	<b>-7,784</b>

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

	31 December 2017	31 December 2016
3 month EURIBOR	-0.329%	-0.319%
6 month EURIBOR	-0.271%	-0.221%
EONIA	-0.346%	-0.329%
Bank's base rate	0.275%	0.275%

### 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 292 thousand euros (2016: 225 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:

	EUR '000	2017	2016
	Carrying amount	Fair value	Fair value
Cash and cash equivalents (note 8)	8,915	8,915	9,786
Trade receivables (note 9)	25,009	25,009	12,905
Retentions receivable (note 9)	950	950	491
Receivables from related parties (notes 9, 35)	19	19	19
Loans to related parties (notes 9, 35)	8,492	8,492	10,626
Other receivables (note 9)	733	733	741
Overdraft liabilities (note 16)	-13,666	-13,666	-7,611
Bank and other loans (note 16)	-5,248	-5,285	-6,051
Finance lease liabilities (notes 16, 17)	-5,576	-5,576	-5,715
Factoring liabilities (note 16)	-5,649	-5,649	0
Trade payables (note 18)	-34,895	-34,895	-28,973
Payables to related parties (notes 18, 35)	-1,260	-1,260	-936
Other payables (note 19)	-3,893	-3,893	-3,485

The carrying amounts of the Group's short-term financial assets and liabilities do not differ significantly from their fair values. The carrying amount of loans to related parties is based on the fair value of properties held by the associates. Therefore, their fair value equals their carrying amount. 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, the fair values of bank and other loans belong to level 2 in the fair value hierarchy established in IFRS 13 *Fair Value Measurement*. The fair values of loans to related parties have been categorised to level 3 (note 5).

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

Average market interest rate	2017	2016
Loans received*	2.17%	2.28%

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

## NOTE 34. CONTINGENT LIABILITIES

### Contingent income tax liability

EUR '000	31 December 2017	31 December 2016
Retained earnings	11,086	13,091
Maximum possible income tax liability	-2,217	-2,618
Maximum amount that could be distributed as the net dividend	8,869	10,473

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. 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 36,275 thousand euros (31 December 2016: 32,199 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 331 thousand euros (31 December 2016: 468 thousand euros).

## NOTE 35. 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 2016: 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 23,842 thousand euros (31 December 2016: 22,192 thousand euros). The parent and the subsidiaries have mortgaged assets of the following classes:

Line item in the statement of financial position (EUR '000)	31 December 2017	31 December 2016
Inventories	12,500	12,800
Investment property	2,589	639
Property, plant and equipment (land and buildings)	767	767
Mortgages that cannot be linked to a specific asset class*	7,986	7,986
<b>Total</b>	<b>23,842</b>	<b>22,192</b>

\* The same mortgage encumbers different immovable properties which in the financial statements are reported in different asset classes.

### Share pledges

In 2017, the Group's borrowings were secured with a pledge of its shares in Tariston AS (100%). In 2016, the Group's borrowings were secured with a pledge of its shares in Hiiu Teed OÜ (100%) and Järva Teed AS (100%).

## NOTE 36. 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.

### The Group's purchase and sales transactions with related parties:

	EUR '000	2017		2016	
Counterparty	Purchases	Sales	Purchases	Sales	
AS Nordic Contractors	314	0	335		0
Companies of AS Nordic Contractors group	3	5	3		10
Companies related to owners of AS Nordic Contractors	677	0	732		0
Associates	3,629	279	4,216		42
Companies related to members of the council	85	0	130		0
<b>Total</b>	<b>4,708</b>	<b>284</b>	<b>5,416</b>		<b>52</b>

	EUR '000	2017		2016
Nature of transactions	Purchases	Sales	Purchases	Sales
Construction services	3,629	0	4,216	0
Transactions with goods	677	0	732	0
Lease and other services	319	26	385	48
Other transactions	83	258	83	0
Total	4,708	284	5,416	48

### Receivables from and liabilities to related parties at period-end (notes 9 and 18):

	31 December 2017		31 December 2016	
EUR '000	Receivables	Liabilities	Receivables	Liabilities
AS Nordic Contractors	0	8	0	11
Companies of AS Nordic Contractors group – receivables	0	0	1	0
Companies of AS Nordic Contractors group – loans and interest	0	0	275	0
Companies related to owners of AS Nordic Contractors	0	27	0	31
Associates – receivables and liabilities	19	1,225	18	894
Associates – loans and interest	8,492	0	8,637	0
Joint venture – loans and interest	0	0	1,714	0
<b>Total</b>	<b>8,511</b>	<b>1,260</b>	<b>10,645</b>	<b>936</b>





## BRF SICKLAÖN 10

**Location:** Nacka, Stockholm  
**Customer:** Innovation Properties AB  
**Architect:** Hultman-Vogt AB  
**Construction period:** October 2016 – June 2017  
**Contractor:** SweNCN AB  
**Project manager:** Marek Soomlais

Receivables from and liabilities to associates result from ordinary business operations. Receivables and liabilities are settled on time. The Group has written down the loans provided to its Ukrainian associates by 3,425 thousand euros in aggregate. The figure includes the write-down of 2017 of 448 thousand euros.

#### Loan principal and accrued interest receivable from related parties (note 33)

					31 December 2017	31 December 2016		
	EUR '000	Related party	Interest rate	Currency	Loan	Of which interest	Loan	Of which interest
Technopolis-2 TOV		Associate	6.5%	EUR	938	136	998	213
V.I. Center TOV		Associate	3.0%	EUR	7,554	465	7,639	568
Unigate OÜ		Joint venture	8.0%	EUR	0	0	1,714	261
Nordic Contractors Finance & Leasing			5.0%	EUR	0	0	275	25
<b>Total</b>					<b>8,492</b>	<b>601</b>	<b>10,626</b>	<b>1,067</b>
Of which current portion (note 9)					0	0	275	25
Of which non-current portion (note 9)					8,492	601	10,351	1,042

During the period, the Group recognised interest income on loans to associates of 268 thousand euros (2016: 294 thousand euros), on loans to the joint venture of 68 thousand euros (2016: 117 thousand euros) and on a loan to a company of AS Nordic Contractors group of 10 thousand euros (2016: 12 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).

During the period, the Group received from the joint venture loan and interest settlements of 1,790 thousand euros (2016: nil euros) and from a company of AS Nordic Contractors group loan and interest settlements of 286 thousand euros (2016: nil euros).

#### Other transactions with related parties

In the reporting period, the Group paid Nõmme Private Education Foundation sponsor support of 83 thousand euros (2016: 115 thousand euros). The foundation is related to a member of the Group's council.

In 2017, the Group received from associates a net dividend of 148 thousand euros (2016: 147 thousand euros). Information on dividends paid by the Group is disclosed in note 22.

#### Remuneration of the council and the board

The service fees of the members of the council of Nordecon AS for 2017 amounted to 167 thousand euros and associated social security charges totalled 55 thousand euros. In 2016, the corresponding figures were 138 thousand euros and 45 thousand euros plus a provision of 61 thousand euros made for performance-related pay and associated social security charges calculated based on the Group's consolidated performance indicators.

The service fees of the members of the board of Nordecon AS amounted to 1,001 thousand euros and associated social security charges totalled 330 thousand euros. In 2016, the corresponding figures were 350 thousand euros and 116 thousand euros plus a provision of 323 thousand euros made for performance-related pay and associated social security charges calculated based on the Group's consolidated performance indicators. The figures for 2017 include termination benefits of 550 thousand euros paid to two board members in the third quarter and associated social security charges of 182 thousand euros (2016: nil euros). In addition, the board's compensation grew because the number of board members increased.

Information on share options granted to the members of the board is disclosed in note 24.

## NOTE 37. LITIGATION AND CLAIMS

### Final 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. the 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, accepted all construction works related to the Aruvalla-Kose road section and

confirmed that all works were completed on time and the outcome met the construction standards and regulations. The dispute concerned additional costs incurred because the application of a method for measuring the aggregate filtration module, 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 took the position 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 requested 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. 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. On 31 May 2017, the Supreme Court issued a ruling by which it refused to accept the cassation appeal. The ruling had no impact on the Group's financial results.

## NOTE 38. EVENTS AFTER THE REPORTING PERIOD

### Appointment of the chairman of the board

At a meeting held on 17 November 2017, the council of Nordecon AS appointed Gerd Müller as the new chairman of the company's board, effective as from 8 January 2018. The chairman of the board is responsible for general management of Nordecon AS, organising the work of the board and organising general management of the subsidiaries of Nordecon AS in strategic matters.

### Termination of the service contract of a member of the board

At a meeting held on 8 March 2018, the council of Nordecon AS decided to terminate the service contract with member of the board Erkki Suurorg by mutual agreement, effective as from 31 March 2018.

## NOTE 39. 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 2017	31 December 2016
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents		4,549	4,674
Trade and other receivables		22,265	15,550
Prepayments		474	1,061
Inventories		11,893	12,775
<b>Total current assets</b>		<b>39,181</b>	<b>34,060</b>
<b>Non-current assets</b>			
Investments in subsidiaries		12,203	12,343
Investments in associates and joint ventures		882	854
Investment property		1,380	1,380
Trade and other receivables		15,647	13,664
Property, plant and equipment		5,505	7,336
Intangible assets		8,205	8,205
<b>Total non-current assets</b>		<b>43,822</b>	<b>43,782</b>
<b>TOTAL ASSETS</b>		<b>83,003</b>	<b>77,842</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Borrowings		13,932	3,644
Trade payables		21,881	19,340
Taxes payable		649	1,163
Other payables		6,721	8,865
Deferred income		1,762	3,027
Provisions		377	471
<b>Total current liabilities</b>		<b>45,322</b>	<b>36,510</b>
<b>Non-current liabilities</b>			
Borrowings		8,681	9,764
Other payables		13	21
Provisions		770	739
<b>Total non-current liabilities</b>		<b>9,464</b>	<b>10,524</b>
<b>TOTAL LIABILITIES</b>		<b>54,786</b>	<b>47,034</b>
<b>EQUITY</b>			
Share capital		18,263	19,720
Own (treasury) shares		-1,349	-1,550
Share premium*		1,158	1,133
Statutory capital reserve		2,534	2,534
Retained earnings		7,611	8,971
<b>TOTAL EQUITY</b>		<b>28,217</b>	<b>30,808</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>83,003</b>	<b>77,842</b>

\* 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.



## Statement of comprehensive income

EUR '000	2017	2016
Revenue	137,033	123,335
Cost of sales	-133,369	-116,870
<b>Gross profit</b>	<b>3,664</b>	<b>6,465</b>
Marketing and distribution expenses	-359	-323
Administrative expenses	-4,117	-3,810
Other operating income	89	106
Other operating expenses	-67	-549
<b>Operating loss/profit</b>	<b>-790</b>	<b>1,889</b>
Finance income	4,422	2,122
Finance costs	-1,011	-794
<b>Net finance income</b>	<b>3,411</b>	<b>1,328</b>
<b>Profit before income tax</b>	<b>2,621</b>	<b>3,217</b>
<b>Income tax expense</b>	<b>-588</b>	<b>0</b>
<b>Profit for the year</b>	<b>2,033</b>	<b>3,217</b>
<b>Total comprehensive income for the year</b>	<b>2,033</b>	<b>3,217</b>

# Statement of cash flows

	EUR '000	2017	2016
<b>Cash flows from operating activities</b>			
Cash receipts from customers <sup>5</sup>		162,935	145,194
Cash paid to suppliers <sup>6</sup>		-155,497	-128,626
Cash paid to and for employees		-10,583	-10,559
VAT paid		-2,434	-3,075
<b>Net cash used in/from operating activities</b>		<b>-5,579</b>	<b>2,934</b>
<b>Cash flows from investing activities</b>			
Paid on acquisition of non-current assets		-39	-54
Proceeds from sale of non-current assets		0	39
Capital contributions to subsidiaries and joint ventures		0	-435
Disposal of a joint venture		2,744	0
Loans provided		-2,455	-1,278
Repayment of loans provided		1,711	591
Interest received		364	609
Dividends received		1,196	1,081
<b>Net cash from investing activities</b>		<b>3,521</b>	<b>553</b>
<b>Cash flows from financing activities</b>			
Proceeds from loans received		8,994	2,143
Repayment of loans received		-1,078	-1,774
Payment of finance lease principal		-865	-1,619
Interest paid		-494	-471
Dividends paid		-3,393	-923
Reduction of share capital		-1,384	-923
Sale of own shares		153	0
Other payments made		0	0
<b>Net cash from/used in financing activities</b>		<b>1,933</b>	<b>-3,567</b>
<b>Net cash flow</b>		<b>-125</b>	<b>-80</b>
Cash and cash equivalents at beginning of year		4,674	4,754
Decrease in cash and cash equivalents		-125	-80
<b>Cash and cash equivalents at end of year</b>		<b>4,549</b>	<b>4,674</b>

<sup>5</sup> Line item Cash receipts from customers includes VAT paid by customers.

<sup>6</sup> Line item Cash paid to suppliers includes VAT paid.

## Statement of changes in equity

	EUR '000	Share capital	Own shares	Share premium	Statutory capital reserve	Retained earnings	Total
<b>Balance at 31 December 2015</b>		<b>20,692</b>	<b>-1,582</b>	<b>1,116</b>	<b>2,534</b>	<b>6,677</b>	<b>29,437</b>
Profit for the year	0	0	0	0	0	3,217	3,217
Dividend distribution	0	0	0	0	0	-923	-923
Reduction of share capital	-972	32	17	0	0	0	-923
<b>Balance at 31 December 2016</b>		<b>19,720</b>	<b>-1,550</b>	<b>1,133</b>	<b>2,534</b>	<b>8,971</b>	<b>30,808</b>
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
<b>Adjusted unconsolidated equity at 31 December 2016</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>25,682</b>
<b>Balance at 31 December 2016</b>		<b>19,720</b>	<b>-1,550</b>	<b>1,133</b>	<b>2,534</b>	<b>8,971</b>	<b>30,808</b>
Profit for the year	0	0	0	0	0	2,033	2,033
Exercise of share options	0	153	0	0	0	0	153
Dividend distribution	0	0	0	0	0	-3,393	-3,393
Reduction of share capital	-1,457	48	25	0	0	0	-1,384
<b>Balance at 31 December 2017</b>		<b>18,263</b>	<b>-1,349</b>	<b>1,158</b>	<b>2,534</b>	<b>7,611</b>	<b>28,217</b>
Carrying amount of interests under control and significant influence	-	-	-	-	-	-	-13,084
Value of interests under control and significant influence under the equity method	-	-	-	-	-	-	7,836
<b>Adjusted unconsolidated equity at 31 December 2017</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>22,969</b>



Statements  
and signatures  
of the board  
and the  
council



# 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 2017 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 and other consolidated entities.



Gerd Müller  
Chairman of the Board  
13 April 2018



Priit Luman  
Member of the Board  
13 April 2018



Maret Tambek  
Member of the Board  
13 April 2018



Ando Voogma Member of the Board  
13 April 2018

## 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  
18 April 2018



Vello Kahro  
Member of the Council  
18 April 2018



Andri Hõbemägi  
Member of the Council  
18 April 2018



Sandor Liive  
Member of the Council  
18 April 2018



Meelis Milder  
Member of the Council  
18 April 2018



# Independent auditors' report



# 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 2017, 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 59 to 116 of Nordecon AS Group annual report. The consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2017;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated 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 eight of the Group's 26 entities to be significant Group components. All of the significant components are located in Estonia. A full-scope audit was performed for four of these components: Nordecon AS, Nordecon Betoon OÜ, AS Eston Ehitus and AS Tariston. For the remaining four significant components (based on the risk characteristics), OÜ Kalda Kodu, OÜ Magasini 29, OÜ Eurocon Vara and OÜ Eurocon, we conducted audits of selected account balances at Group level.



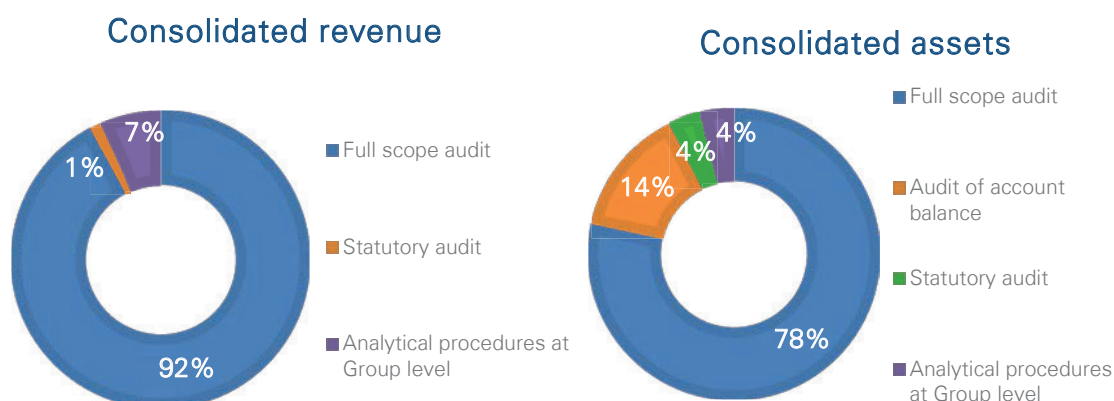


For OÜ Kaurits, we used the results of the statutory audits conducted in accordance with Estonian legislation. OÜ Kaurits was not individually significant from the point of view of the Group but the statutory audit was required by local legislation.

For the remaining 18 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, OÜ Magasini 29, OÜ Eurocon Vara 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, Finland and 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.

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 2017 includes loans provided to the Group's Ukrainian associates with the carrying amount of 8,492 thousand euros. The balance consists of loans provided to Technopolis-2 TOV of 938	<p>In this area, we conducted, among others, the following audit procedures:</p> <ul style="list-style-type: none"> <li>We assessed the valuation reports prepared by the external appraisers engaged by the Group, considering the valuation methodology applied</li> </ul>



<p>thousand euros and loans provided to V.I. Center TOV of 7,554 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 investments in the properties and secure their loans. The ability of the Ukrainian associates to repay these loans depends on the realisation of the development projects; and therefore, the value of the loans also depends on the fair value of the underlying properties.</p> <p>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.</p> <p>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 an external appraiser 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 (deferral of completion). Based on the results of the appraisal, the Group's management recognised an impairment loss of 448 thousand euros for the loans in 2017.</p> <p>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 have a material effect on the Group's financial results.</p>	<p>as well as the appraisers' competence, skills and objectivity;</p> <ul style="list-style-type: none"> <li>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;</li> <li>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.</li> <li>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;</li> <li>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).</li> </ul>
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Valuation of goodwill	
Refer to notes 2 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 2017 includes goodwill in the amount of 14,176 thousand euros, further discussed in note 15.	In this area, we conducted, among others, the following audit procedures:

<p>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.</p> <p>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 and the expected future revenue and gross margin depend on management's significant judgment and estimates.</p> <p>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.</p>	<ul style="list-style-type: none"> <li>• We assessed whether management had appropriately allocated assets to CGUs based on our understanding of the Group's operations;</li> <li>• 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;</li> <li>• 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);</li> <li>• 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;</li> <li>• 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;</li> <li>• 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.</li> </ul>
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Carrying amounts of plots of land acquired for development	
Refer to notes 2 and 11 of the consolidated financial statements.	
The key audit matter	How the matter was addressed in our audit
<p>The Group has plots of land acquired for development. As at 31 December 2017, the carrying amount of the plots was 10,940 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.</p> <p>The plots are located in different parts of Estonia and in the reporting period the number</p>	<p>In this area, we conducted, among others, the following audit procedures:</p> <ul style="list-style-type: none"> <li>• Assisted by our own valuation specialists, we performed the following procedures: <ul style="list-style-type: none"> <li>- We checked the competence and objectivity of the real estate valuation specialist working in the Group that had been used by the Group.</li> <li>- We assessed the appropriateness of the</li> </ul> </li> </ul>

<p>of market transactions involving undeveloped plots was relatively low. Therefore, externally available data for determining the market value of the plots was limited.</p> <p>The Group measured the net realisable value of the plots acquired for development with the assistance of the real estate valuation specialist working in the Group who determined the market values of the plots by 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. Based on the market values of the plots determined by the real estate valuation specialist working in the Group, the Group's management did not recognise any impairment losses for the plots in 2017 and 2016.</p> <p>We assessed this area to be a key audit matter because even relatively small changes in the key inputs of 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.</p>	<p>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.</p> <ul style="list-style-type: none"> <li>- 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.</li> <li>• We compared the construction prices per square metre used in the model with those of comparable projects. We also analysed the structure of construction costs by plots and compared it to historical data;</li> <li>• We carried out an analysis of the sensitivity of the valuation outcomes to changes in the key inputs, including changes in the expected sales prices of apartments;</li> <li>• 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.</li> </ul>
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Fair value of investment properties	
Refer to notes 2 and 13 to the consolidated financial statements.	
The key audit matter	How the matter was addressed in our audit
<p>As at 31 December 2017, 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.</p> <p>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.</p> <p>The fair value measurements are highly sensitive to changes of the key inputs used.</p>	<p>In this area, we conducted, among others, the following audit procedures:</p> <ul style="list-style-type: none"> <li>• Assisted by our own valuation specialists, we: <ul style="list-style-type: none"> <li>- 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;</li> <li>- 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</li> </ul> </li> </ul>

<p>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.</p>	<p>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.</p> <ul style="list-style-type: none"> <li>• We compared the construction prices per square metre used in the model with those of comparable properties;</li> <li>• 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;</li> <li>• 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.</li> </ul>
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## Other Information

Management is responsible for the other information. The other information comprises the information included in the consolidated annual 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.

## Report on Other Legal and Regulatory Requirements

We were appointed by those charged with governance on 26 April 2017 to audit the consolidated financial statements of Nordecon AS for the periods ending 31 December 2017 to 31 December 2019. Our total uninterrupted period of engagement is 12 years, covering the periods ending 31 December 2006 to 31 December 2017. In accordance with the Estonian Auditors Activities Act and Regulation (EU) No. 537/2014, our engagement as auditors of Nordecon AS may be extended until the period ending 31 December 2022.

We confirm that:

- our audit opinion is consistent with the additional report presented to the Audit Committee of the Group;
- we have not provided to the Group the prohibited non-audit services (NASs) referred to in Article 5(1) of Regulation (EU) No. 537/2014. We also remained independent of the audited entity in conducting the audit.

Tallinn, 13 April 2018

**Andris Jegers**

Certified Public Accountant, Licence No. 171

**KPMG Baltics OÜ**

Audit Firm Licence No. 17

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# Profit allocation proposal

# PROFIT ALLOCATION PROPOSAL

## Distributable profit of Nordecon AS

	EUR '000
Retained earnings of prior years	9,698
Profit for 2017	1,388
<b>Total distributable profit at 31 December 2017</b>	<b>11,086</b>

### The board makes the following proposals:

1. to distribute a dividend of 0.06 euros per share (1,855 thousand euros according to the list of shareholders as at 31 December 2017);
2. not to make any transfers to the capital reserve.

According to the board's proposal in 2018 the company could distribute for 2017 a dividend of 0.06 euros per share. The total amount of the dividend to be distributed depends on the extent to which share options have been exercised at the date the list of shareholders entitled to a dividend is determined. Based on the list of shareholders as at 31 December 2017, the total amount of dividend to be distributed is 1,855 thousand euros. Own (treasury) shares do not grant the company any shareholder rights.



Gerd Müller  
Chairman of the Board  
13 April 2018



Priit Luman  
Member of the Board  
13 April 2018



Maret Tambek  
Member of the Board  
13 April 2018



Ando Voogma  
Member of the Board  
13 April 2018



# GRI CONTENT INDEX

The Group has prepared its annual report in accordance with the internationally recognised and widely used GRI (Global reporting Initiative) Sustainability Reporting Standards 2016 for the first time. The topics required by GRI and the rest of the directors' report have been integrated into a single report.

The report discloses information about environmental, social, responsible management and market behaviour topics which are the most material in light of the Group's activities, impacts and stakeholder expectations. The GRI content index table presented below summarises the activities and data of the parent company Nordecon AS and its subsidiaries Eston Ehitus AS, Nordecon Betoon OÜ, Tariston AS, Kaurits OÜ, Estcon Oy, SweNCN AB and Eurocon Ukraine TOV unless otherwise stated.

GRI standard	Disclosure number	Disclosure	Location in report and/or explanation
<b>Foundation (GRI 101: 2016)</b>			
<b>General disclosures (GRI 102: 2016)</b>			
<b>Organizational profile</b>			
	102-1	Name of the organization	Page 2
	102-2	Activities, brands, products, and services	Pages 2, 6, 21, 27, 28, 32
	102-3	Location of headquarters	Page 2
	102-4	Location of operations	Pages 6, 28
	102-5	Ownership and legal form	Pages 6, 66
	102-6	Markets served	Pages 6, 28
	102-7	Scale of the organization	Page 7
	102-8	Information on employees and other workers	Page 38 (data is disclosed in as much detail as is required for outlining differences between different employee and other worker categories)
	102-9	Supply chain	Page 46 (Group entities build assets (1) according to design documents and terms of reference provided, (2) using materials and products from Estonian and foreign producers and suppliers, and (3) with own or subcontractors' workforce to (4) ensure on-time and proper completion and delivery, including (5) fulfilment of obligations during the warranty period)
	102-10	Significant changes to the organization and its supply chain	Pages 27, 66
	102-11	Precautionary Principle or approach	Pages 26, 47
	102-12	External initiatives	Pages 6, 43, 47, 50
	102-13	Membership of associations	Pages 51
<b>Strategy</b>			
	102-14	Statement from senior decision-maker	Statements by the chairman of the council and the Group chief executive do not discuss social responsibility topics
<b>Ethics and integrity</b>			
	102-16	Values, principles, standards, and norms of behaviour	Pages 6, 56-66
	102-17	Mechanisms for advice and concerns about ethics	Pages 56-57
<b>Governance</b>			
	102-18	Governance structure	Pages 53-56 (ultimate responsibility for matters related to social and environmental impacts rests with the board of Nordecon AS)

## Stakeholder engagement

102-40	List of stakeholder groups	Page 20
102-41	Collective bargaining agreements	The employees of Group entities do not belong to trade unions; thus, there are no collective bargaining agreements.
102-42	Identifying and selecting stakeholders	Page 20
102-43	Approach to stakeholder engagement	Pages 20, 36-38, 41-42, 46-47, 51-53, 56
102-44	Key topics and concerns raised	Page 20

## Reporting practice

102-45	Entities included in the consolidated financial statements	Pages 27, 72
102-46	Defining report content and topic boundaries	Page 20
102-47	List of material topics	Page 20
102-48	Restatements of information	No restatements have been made.
102-49	Changes in reporting	This is the Group's first report in accordance with the GRI requirements.
102-50	Reporting period	Page 2
102-51	Date of most recent report	This is the Group's first report in accordance with the GRI requirements.. The previous annual report was released on 27 April 2017.
102-52	Reporting cycle	The report is published once a year.
102-53	Contact point for questions regarding the report	Andri Höbemägi, andri.hobemagi@nordiccontractors.com
102-54	Claims of reporting in accordance with the GRI Standards	The report has been prepared in accordance with the GRI Standards: Core option.
102-55	GRI content index	Pages 155-158
102-56	External assurance	Third parties have not expressed assurance on the report's compliance with the GRI requirements.

## Sustainability focus topics

### Quality and customer experience

Management approach (GRI 103: 2016)	103-1 until 103-3	Pages 36-37
	non-GRI	Customer satisfaction

### Management quality

Management approach (GRI 103: 2016)	103-1 until 103-3	Page 43
	non-GRI	Management trainings for senior managers

### Innovation

Management approach (GRI 103: 2016)	103-1 until 103-3	Pages 36-37
	non-GRI	Usage of BIM in projects

### Environmental impact of ready-made buildings and sites

Management approach (GRI 103: 2016)	103-1 until 103-3	Pages 50
	non-GRI	Energy labels and environmental standards

### Economic performance (GRI 201: 2016)

Management approach (GRI 103: 2016)	103-1 until 103-3	Page 32-34
	201-1	Direct economic value generated and distributed

**Anti-corruption (GRI 205: 2016)**

Management approach (GRI 103: 2016)	103-1 until 103-3		Pages 56-57
	205-3	Confirmed incidents of corruption and actions taken	Page 57

**Energy (GRI 302: 2016)**

Management approach (GRI 103: 2016)	103-1 until 103-3		Page 50
	302-1	Energy consumption within the organisation	Page 50 (disclosures include data on the largest sources of energy and fuel consumption)

**Biodiversity (GRI 304: 2016)**

Management approach (GRI 103: 2016)	103-1 until 103-3		Page 50
	304-1	Operational sites owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas	Page 50

**Emissions (GRI 305: 2016)**

Management approach (GRI 103: 2016)	103-1 until 103-3		Page 50
	305-1	Direct (Scope 1) GHG emissions	Page 50 (disclosures include data on the largest sources of emissions)

**Effluents and waste (GRI 306: 2016)**

Management approach (GRI 103: 2016)	103-1 until 103-3		Page 48
	306-3	Significant spills	Page 50

**Environmental compliance (GRI 307: 2016)**

Management approach (GRI 103: 2016)	103-1 until 103-3		Page 47
	307-1	Non-compliance with environmental laws and regulations	Page 47

**Supplier environmental assessment (GRI 308: 2016)**

Management approach (GRI 103: 2016)	103-1 until 103-3		Pages 46-47
	308-2	Negative environmental impacts in the supply chain and actions taken	Page 46

**Employment (GRI 401: 2016)**

Management approach (GRI 103: 2016)	103-1 until 103-3		Pages 38-48
	401-1	New employee hires and employee turnover	Page 38 (data is disclosed in as much detail as is collected by Group companies in line with the concept of materiality)
	non-GRI	Employee satisfaction and feedback	Page 42
	non-GRI	Interns	Page 41

**Occupational health and safety (GRI 403: 2016)**

Management approach (GRI 103: 2016)	103-1 until 103-3		Pages 43-46
	403-2	Types of injury and rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities	Page 46 (data is disclosed in as much detail as is collected by Group companies in line with the concept of materiality)
	403-3	Workers with high incidence or high risk of diseases related to their occupation	Page 43

## Training and education (GRI 404: 2016)

Management approach (GRI 103: 2016)	103-1 until 103-3		Pages 42
	404-1	Average hours of training per year per employee	Page 42 (data is disclosed in as much detail as is collected by Group companies in line with the concept of materiality)
	non-GRI	Employee professional certificates	Page 43

## Diversity and equal opportunity (GRI 405: 2016)

Management approach (GRI 103: 2016)	103-1 until 103-3		Pages 43, 63
	405-1	Diversity of governance bodies and employees	Pages 38, 43 (data is disclosed in as much detail as is required for outlining differences between different employee categories)

## Non-discrimination (GRI 406: 2016)

Management approach (GRI 103: 2016)	103-1 until 103-3		Page 43
	406-1	Incidents of discrimination and corrective actions taken	Page 43

## GRI 413: Local Communities 2016

Management approach (GRI 103: 2016)	103-1 until 103-3		Pages 38, 51-53
	413-1	Operations with local community engagement, impact assessments, and development programs	Pages 51-53
	413-2	Operations with significant actual and potential negative impacts on local communities	Page 38
	non-GRI	Complaints received from surrounding inhabitants regarding disturbing construction activities	Page 38

## Supplier social assessment (GRI 414: 2016)

Management approach (GRI 103: 2016)	103-1 until 103-3		Pages 46-47
	414-2	Negative social impacts in the supply chain and actions taken	Page 46

## Public policy (GRI 415: 2016)

Management approach (GRI 103: 2016)	103-1 until 103-3		Page 56
	415-1	Political contributions	Page 56

## Customer health and safety (GRI 416: 2016)

Management approach (GRI 103: 2016)	103-1 until 103-3		Pages 36-38
	416-2	Incidents of non-compliance concerning the health and safety impacts of products and services	Page 38

## Socioeconomic compliance (GRI 419: 2016)

Management approach (GRI 103: 2016)	103-1 until 103-3		Pages 56-57
	419-1	Non-compliance with laws and regulations in the social and economic area	Page 56





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