NORDECON

ANNUAL REPORT

2018

GROUP ANNUAL REPORT 2018

Business name	Nordecon AS
Registry number	10099962
Address	Pärnu mnt 158/1, 11317 Tallinn, Estonia
Domicile	Republic of Estonia
Telephone	+372 615 4400
E-mail	nordecon@nordecon.com
Corporate website	www.nordecon.com
Core business lines	Construction of residential and non-residential buildings (EMTAK 4120) Construction of roads and motorways (EMTAK 4211) Road maintenance (EMTAK 4211) Construction of utility projects for fluids (EMTAK 4221) Construction of water projects (EMTAK 4291) Construction of other civil engineering projects (EMTAK 4299)
Financial year	1 January 2018 – 31 December 2018
Council	Toomas Luman (chairman of the council), Andri Hõbemägi, Vello Kahro, Sandor Liive, Meelis Milder
Board	Gerd Müller (chairman of the board), Priit Luman, Maret Tambek, Ando Voogma
Auditor	KPMG Baltics OÜ

CONTENTS

CONTENTS

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 various 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 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 2018

€223M (2017: €231m) Revenue	**-3%** (2017: 26%) Revenue change, year on year	**€100M** (2017: €144m) Order book at the year-end
€134M (2017: €211m) Value of new contracts signed	**122** (2017: 127) Projects delivered to customers	**687** (2017: 735) Employees
17/0 (2017: 17/0) Accidents at work/Fatal accidents at work (incl. subcontractors)	**0** (2017: 0) Environmental pollution, discrimination and corruption incidents	**€298K** (2017: €300k) Donations to community projects and charities

AWARDS AND RECOGNITION

In 2018, the Group was recognised for its achievements and received a number of prominent awards. For example:

- In an attractive employers survey conducted by Instar EBC in 2018, technology and engineering students rated Nordecon AS the fifth most attractive employer in Estonia.
- Nordecon AS ranked the third most competitive construction company in a survey conducted by the Estonian Chamber of Commerce and Industry.
- The machine shop of the historical Luther plywood factory, which was renovated by Nordecon AS in 2016–2017, also received several awards in 2018: the Plywood Award at the Wooden Building of the Year 2018 competition, the Annual Award of the Estonian Association of Interior Architects, and a Special Award at the Concrete Building of the Year 2017 competition.

LETTER FROM CHAIRMAN OF THE COUNCIL

The construction sector has been at the forefront of Estonia's economic development in recent years. Strong domestic demand, which has been driving Estonia's economic growth and value added, has also fuelled demand for construction services and increased construction volumes. These are certainly good times. Still, there are some buts. At a time of rapid growth, general contractors often find themselves seeking the right balance between long-term contracts secured by making the lowest bid and input prices, which keep rising on a monthly basis because (labour) resources are limited. Understandably, such a situation puts additional pressure on profit margins.

Based on the results for 2018, we can see that Nordecon Group has been quite good at the balancing act. It is true, that the gross margin did not rise to the targeted 6% level, which must definitely be attainable for the Group. At the same time, it improved compared to 2017. This provides assurance that under the leadership of the new board that has now been in office for a full year the Group has made good progress in risk assessment, both in preparing tenders and adapting to the realities of its new foreign market, Sweden. Sales and profitability indicators have improved and, given that sales volumes dropped slightly in 2018, this is a fair achievement. It should also be noted that the volume of our own housing development projects has grown considerably.

However, going forward, we need to keep in mind that although in monetary terms construction market indicators are still following an upward trend, in many segments of our home market, Estonia, volumes are not comparable to the boom we had years ago. The number of building permits issued shows that fewer infrastructure assets and residential buildings are built, less ready-mixed concrete is sold, and the rate of investment in buildings and infrastructure assets is generally lower. Thus, the Group's goal is to grow moderately through improved efficiency in the Estonian market while also increasing its focus on foreign markets. This combination should create a strong foundation for what is important for us – to be a regional construction company that holds a leading position in the home market and delivers a stable and attractive dividend yield to its shareholders.

Toomas Luman
Chairman of the Council

GROUP CHIEF EXECUTIVE'S LETTER

For Nordecon Group, the past year was one of qualitative growth, a year when we put growth in profitability and a balance between our operating segments before growth in construction volumes.

The Estonian construction market continued to grow in 2018 and overall demand remained strong throughout the period. The rise in construction volumes was mainly attributable to overall economic growth and high consumer confidence, which supported both large-scale investment in the housing market and the development of commercial and public buildings. Public contracts continue to play a very important role, particularly outside Tallinn. Both the buildings and infrastructure segments grew and, for the first time in years, we also saw growth in environmental engineering.

Despite rapid growth in construction volumes, competition in the sector remains stiff. Increasing wages, rising materials costs and the technological complexity of new buildings, which pushes up their cost of construction, have widened the gap between customers' price expectations and actual construction costs. Many new projects are redesigned to mitigate the upswing in construction costs. This in turn limits wider deployment of energy efficient and sustainable solutions because their cost is impractical for customers.

Shortage of labour, particularly qualified and skilled labour, is the most serious problem in the construction sector. It is clear that the Estonian education system cannot produce enough skilled workers and engineers, especially in such a rapid growth phase as we have seen in recent years. By working with educational institutions, construction companies can do a lot to promote civil engineering and relevant career opportunities. Fortunately, digitalisation and new technological solutions have also started making their way into the tradition-bound construction sector. We have set ourselves a clear goal that Nordecon should be an innovation leader and among the first implementers of innovative solutions in the construction business. We see this as a way to contribute to improving the reputation of the construction sector. We also hope that by demonstrating future opportunities, we can spark young talent's interest in pursuing a career in civil engineering.

Nordecon's revenue for 2018 remained stable compared to the previous period while overall profitability improved noticeably. Thus, on the whole we can be satisfied with the results. Our target is to achieve and maintain a 3% operating margin. In 2018, this was not achieved because the outcome of a major housing construction project in Estonia did not meet expectations and vol-

umes in the Swedish market declined. We met the target of striking a balance between commercial, public, apartment, and industrial buildings in our building construction portfolio. It was a good year for the infrastructure segment (mainly the road construction sub-segment) whose revenue and margin exceeded expectations.

Broad-based activity, which means being involved in most construction segments to deliver long-term and balanced growth, is one of the cornerstones of our strategy. The work completed in 2018 illustrates it well: the Haabersti intersection in Tallinn, the Metsä Wood plywood mill in Pärnu, the Omniva logistics centre in Rae parish, an office building and a multi-storey car park in Ülemiste City, the WoHo commercial and residential building in Tallinn, buildings at the Defence Forces' base at Tapa, the Meerhof apartment buildings in Pirita, the construction of passing lanes for the two-plus-one sections of two national roads, Tallinn-Pärnu-Ikla and Tallinn-Tartu-Luhamaa. There were also many other projects.

Operations in our chosen foreign markets are crucial for achieving our long-term goals. Nordecon's target is to generate 20% of revenue outside Estonia by 2022 and our focus is on growing in the Swedish market. We have been operating there for three years. From the very beginning, we have been a general contractor, which is not customary for a construction company from the Baltic states or Eastern Europe. Our strategy in Sweden is not to be a price leader but to use our professional engineering skills and experience to offer the best technical solutions that can be executed quickly. The Swedish housing construction market where our wholly-owned subsidiary SWENCN AB mostly operates, has probably reached its peak. However, the volume of a shrinking market also presents good opportunities for growth because the population and incomes in Sweden, and the Stockholm area in particular, are growing.

Our forecast for 2019 is that, against the backdrop of Estonia's overall economic growth, demand for the construction of new and the expansion and reconstruction of existing buildings will remain strong. Competition between construction companies continues to be fierce but upward pressure on construction prices will not ease. Growth in construction volumes will slow only if soaring demand triggers a significant rise in construction prices. So far, price growth has largely been mitigated by redesigning buildings and using more affordable and simpler materials. Unfortunately, at times this has been done at the expense of quality – there is a shortage of qualified labour but the work needs to be done and cost is too often the only criterion in making a choice.

The Group's economic forecast for this year foresees moderate growth in volumes with a focus on increasing profitability. We remain committed to maintaining a balance between our different business lines and gaining a competitive edge by tapping into Group-wide resources. We will invest in the digitalisation of our activities and improving our design capabilities in order to keep our competitive advantages.

In 2019, the Group's parent, Nordecon AS, will celebrate its 30th anniversary. We are a company with traditions and long-term goals that provides work and a sense of security for hundreds of people. Seeing a common goal and each of our people understanding their individual role in achieving it are values that we aspire for.

I thank all our employees for their contribution to the development of the Group, all our business partners for working with us in creating an integrated and better living environment and all our shareholders for their trust and investment in Nordecon.

Gerd Müller
Chairman of the Board

MANAGEMENT OF THE GROUP

GERD MÜLLER
CHAIRMAN OF THE BOARD

MARET TAMBEK
MEMBER OF THE MANAGEMENT BOARD
FINANCE AND SUPPORT FUNCTIONS

ANDO VOOGMA
MEMBER OF THE MANAGEMENT BOARD
SALES AND PRE-CONSTRUCTION

PRIIT LUMAN
MEMBER OF THE MANAGEMENT BOARD
FOREIGN MARKETS

AIN PÄHKEL
ROAD CONSTRUCTION DIRECTOR

MEELIS KANN
BUILDINGS CONSTRUCTION DIRECTOR

REEDIK RAUDLA
CIVIL ENGINEERING DIRECTOR

INGRID KIISEL
HEAD OF GROUP FUNCTION
LEGAL AFFAIRS

JAANA PEDRAS
HUMAN RESOURCES MANAGER

MIRJAM MIKKIN
HEAD OF COMMUNICATION

HANNES MUST
HEAD OF QUALITY DEPARTMENT

TORMI MÜÜR
TECHNICAL DIRECTOR

TOOMAS RELL
HEAD OF RESIDENTIAL
DEVELOPMENT DEPARTMENT

MIINA KARAFIN
DEVELOPMENT MANAGER

MEMBERS OF BOARD, NORDECON GROUP SUBSIDIARIES

OLLE BERGQVIST
SWENCN AB
MANAGER

KASPAR KALDJÄRV
TARISTON AS
CHAIRMAN OF THE MANAGEMENT BOARD

MAIT RÕÕMUSAAR
NORDECON BETOON OÜ
CHAIRMAN OF THE MANAGEMENT BOARD

PEEP SAKK
ESTON EHITUS AS
MANAGER

JANEK UIBO
KAURITS OÜ
MANAGER

JURI PETRIK
EUROCON UKRAINE TOV
MANAGER

DIRECTORS' REPORT

STRATEGIC AGENDA FOR 2019–2022

THE GROUP'S STRATEGIC BUSINESS AGENDA AND TARGETS FOR THE PERIOD 2019–2022

BUSINESS LINES AND MARKETS

- The Group will grow, mostly organically, with a focus on a more efficient use of its existing resources.
- In Estonia, we will operate, as a market leader, in both the building and infrastructure construction segments.
- 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 and concrete works, primarily in Kiev and the surrounding area.

ACTIVITIES FOR IMPLEMENTING THE STRATEGY

- Improving profitability through more precise planning of our design and construction operations
- Increasing our design and digitalisation capabilities
- Simplifying and automating work and decision-making processes
- Monitoring the balance between the contract portfolios of different business segments
- Valuing balanced teamwork where youthful energy and drive complement long-term experience
- Noticing and recognising each employee's individual contribution and initiative

FINANCIAL TARGETS

- Revenue will grow by at least 10% per year.
- Foreign markets' contribution will increase to 20% of revenue.
- Real estate development revenue will grow to at least 10% of revenue earned in Estonia.
- Operating margin for the year will be consistently above 3%.
- Operating profit per employee will increase to at least 10 thousand euros per year.
- We will, on average, distribute at least 30% of profit for the year as dividends.

SOCIAL RESPONSIBILITY

The construction sector is one of the largest economic sectors and employers in Estonia and other markets where Nordecon Group operates. In an advanced society, it is customary to expect those, who have a greater impact on people's lives and the economy, to make a greater contribution and shoulder more responsibility. The Group is aware that people are becoming more interested and demanding in matters of responsible corporate governance and making a positive impact.

Construction activity is very visible in public space. As an organization, we are part of the surrounding world and it is necessary to see the connections between our activities and social topics. A better understanding of social trends and participation in building a sustainable social, business, living and natural environment help ensure the Group's longevity. This is especially important for the younger generation and our customers and partners in foreign markets. Internationalization and gaining the trust of the young generation are both crucial for the Group's future success.

The Group takes into account the social and environmental impacts of its core business and considers it important to have an ethical and open management culture at all its entities. Such conduct is an integral part of the modern management culture and helps build enduring, trust-based relationships with all relevant stakeholders. Although environmentally friendly construction and responsible business practices are still not the decisive sales argument for most end-consumers that are individuals, it is the Group's responsibility to shape its operations by keeping an eye on the future and mitigate current risks and slip-ups in matters related to the natural and working environment, integrity and ethics.

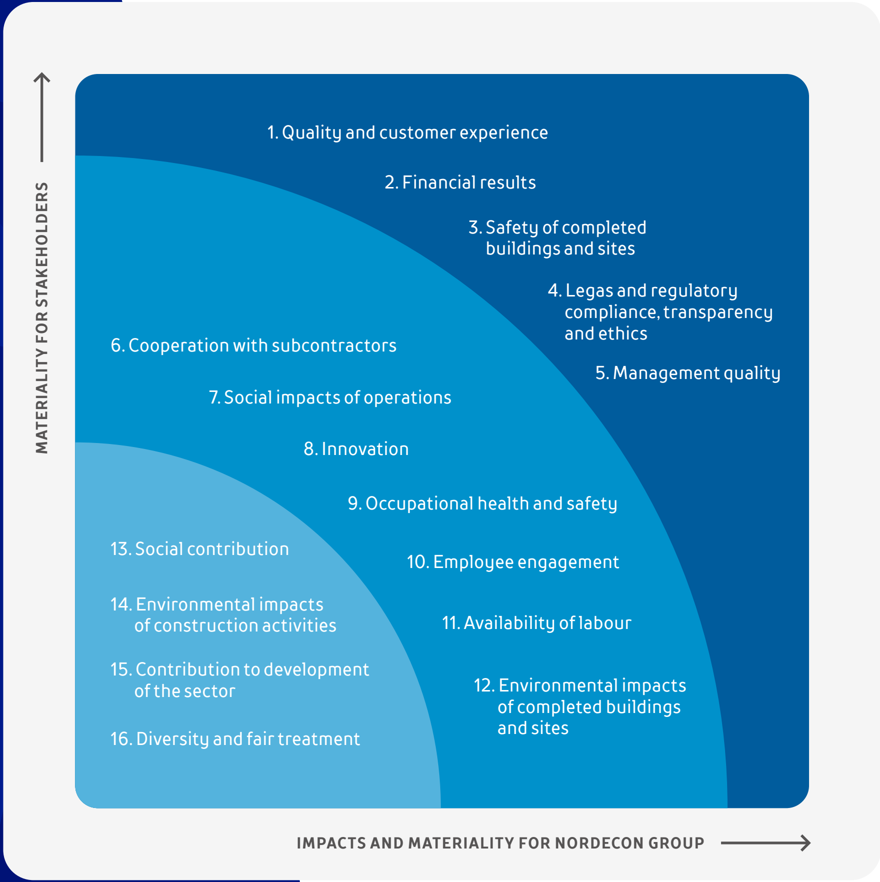
SETTING THE FOCUS

In order to understand the Group's social impact and identify priority aspects, it is important to know the trends in the external environment and stakeholders' expectations for the Group's operations. We communicate regularly with our main stakeholders: the opinions, satisfaction and expectations of our shareholders, employees, customers, subcontractors and suppliers are crucial for us. People who live near our construction sites and local authorities are also involved in each project as needed. The Group communicates 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 organizations.

At the end of 2016, the key management personnel of the Group's parent and the executives of the larger subsidiaries analysed how stakeholders' possible expectations for responsible business practice interlock with the Group's understanding of the importance of various topics. To ensure a reliable high-quality outcome, the process was led by independent consultants. The findings raised were also relevant in 2018.

The outcome is reflected in the Group's social responsibility materiality matrix. It divides the aspects which need to be considered in designing our everyday work and reviewing our operations into three important categories.

Given that the focus topics are, to a lesser or greater extent, important for all Group entities, the Group's annual report describes our approach to managing our focus topics as well as developments in relevant areas in 2018.



Above all, the Group's role and responsibility in society is to:

- Make a positive contribution to the development of society by creating jobs, paying taxes, buying goods and services, delivering capital growth for investors and supporting social initiatives
- Operate openly and with integrity, ethically and transparently, which is a prerequisite for winning the trust of our business partners and managing large construction projects as well as an opportunity to improve business culture as a listed company
- Develop and maintain good customer relations, and collaborate with customers and business partners in an open and professional manner by offering our expertise and advice and seeking the best available solutions for construction projects
- Seek continually more efficient operational and engineering solutions through innovation and improved technological capabilities and leadership competencies
- Build safe high-quality buildings and infrastructure assets, and also ensure efficiency in an environment where prices are under pressure because the customer expects a good result quickly and at a favourable price even though solutions are becoming increasingly more sophisticated
- Build sustainably in order to preserve the natural environment and constantly improve our ability to carry out projects that meet the customers' highest expectations for environmentally friendly buildings
- Promote the construction of comprehensively and tastefully designed buildings and public space by participating, where possible, in the development of the architectural design and the selection of materials alongside the customer and designers
- Create a safe and motivating working environment for employees and encourage employee development in order to build qualified and skilled teams that have a common understanding of a smooth workflow
- Support engineering education to promote the engineering profession, alleviate the shortage of qualified and skilled labour and strengthen the Group's image as a well-managed employer that enables employees to work on ambitious projects

MARKET TRENDS

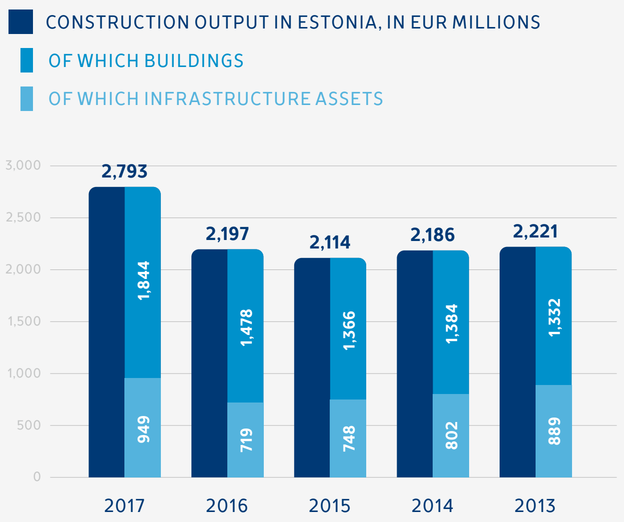
In the year under review, a substantial share of the Group's operations was carried out in Estonia and developments in the domestic market had the strongest impact on the Group's performance.

ESTONIAN CONSTRUCTION MARKET IN 2018

According to preliminary data by Statistics Estonia, in 2018 Estonian construction companies' total output in Estonia and abroad (combined, in current prices) was around 2,992 million euros, 18% up on 2017. Building construction accounted for around 2 billion of the total. Construction volumes in Estonia grew for the third year in a row, the growth rate was 21%. The local construction market was influenced the most by the building segment where output grew both in the construction of new buildings and the renovation and reconstruction of buildings. Market growth was also supported by infrastructure construction which began growing at the beginning of 2017. The output of Estonian construction companies' foreign operations declined by 13% year on year, mainly through a decrease in building construction. Foreign operations accounted for 6% of Estonian construction companies' output for 2018.

In building construction, growth was mainly underpinned by investments made by the private sector and activity in the real estate market. The number of new dwellings grew for the seventh year in a row but growth slowed compared to 2017. In 2018, 6,472 new dwellings received a permit of use, an increase of 582 on the prior year (2017: 5,890 new dwellings, an increase of 1,158 on 2016). Most of them were in apartment buildings and located in and around Tallinn and in Tartu. There continues to be demand for new quality housing in prime locations. The number of construction permits issued for dwellings decreased compared to 2017. Permits were issued for the construction of 6,990 new dwellings (2017: 7,877). The number of non-residential premises that received a permit of use was 1,000 and their total usable area was 1,100,000 square metres (2017: 1,251 and 804,000 respectively). Growth was the strongest in new industrial, commercial and office space.

CONSTRUCTION OUTPUT*



* 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 2019, public investments that have a strong impact on the construction market will not increase considerably compared to 2018. In terms of the market as a whole, investments made by the largest public sector customers (the state-owned real estate company Riigi Kinnisvara AS, the National Road Administration, the Centre for Defence Investment, etc.) that will reach signature of a construction contract in 2019 will not grow substantially. There are no signs of significant year-on-year growth in the volume of orders placed by the private sector either. Thus, it is expected that after two years of rapid growth the Estonian construction market will start cooling down.

- Competition remains stiff across the construction market, intensifying in different segments in line with market developments. A continuously high number of bidders for construction contracts reflects this. It is clear that in an environment of continuously rising input prices, which has emerged in recent years, companies that can operate more efficiently and invest more in the pre-construction phase, particularly design, are more successful.

- In developing new residential real estate, the success of a project depends on the developer's ability to control the input prices included in its business plan and thus set sales prices that are affordable for prospective buyers. A certain market saturation and credit institutions' more limited financing of buyers will lengthen the sale of real estate. In particular, this will affect more expensive housing. While the market in Tallinn is becoming saturated, Estonia's other significant housing market in Tartu has sufficient development potential.

- There is a growing contrast between the stringent terms of public contracts, which impose an increasing number of obligations, strict sanctions, different financial guarantee commitments, long settlement terms, etc. and the modest eligibility criteria. 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. However, they have also heightened the financial, completion delay and quality risks taken by customers during the contract performance and the subsequent warranty periods.

- The prices of construction inputs will continue to rise at a moderate pace, driven by growth in labour costs. General contractors have been trying to absorb the cost increase by making margin concessions but those measures are practically exhausted. The construction market includes a growing number of areas where changes in the environment (e.g. materials producers' rapid and successful entry into foreign markets) may trigger a sharp price increase.

- Growth in construction prices has created a situation where the prices proposed by bidders exceed public customers' planned budgetary resources or do not fit private customers' business plans. As a result, construction work procurements are either cancelled or the processes extend beyond the initial deadlines.

- The persisting shortage of skilled labour (including project and site managers) is restricting companies' performance capacities and affecting different aspects of the construction process, including quality. Labour migration to the Nordic countries remains steady and it is not likely that workers who have left will return to the Estonian construction market in large numbers. Migrant workers who in turn have started moving to Estonia are not able to fill the gap. The above factors sustain pressure for a wage increase, particularly in the category of the younger and less experienced workforce whose natural mobility and willingness to change jobs is 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 increased in recent years. Hard times have reduced the number of inefficient (construction) companies and when the economy normalises we will have considerably better prospects for increasing our operations and profitability. In 2019, we will continue our Ukrainian operations, mainly in the Kiev region. Despite the military conflict in eastern Ukraine, for Nordecon the market situation has improved in recent years and we expect that in 2019 the Group's business volumes will remain at a level comparable to 2018. The Group assesses the situation in the Ukrainian market regularly and critically and is ready to restructure its operations as and when necessary. 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. At the end of 2018, the Group increased its interest in Technopolis-2 TOV from 50% to 100% (see the chapter Group structure). The company owns one of the above real estate projects. Sole ownership provides an opportunity to realise the project more flexibly.

FINLAND

In Finland, we have mainly been providing subcontracting services in the concrete work segment but, based on experience gained over the years, 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. However, our policy is to maintain a rational approach and avoid taking excessive risks. As expected, Finland's economic growth has also had a positive impact on the construction sector. According to forecasts, in 2019 the construction sector will continue to expand.

SWEDEN

We have been operating in Sweden since July 2015. In the Swedish market, we offer mainly the construction of residential and non-residential buildings in the central part of the country. In gaining experience in the new market, we have prioritised quality and adherence to deadlines over profitability. As regards our longer-term goal and the plan to build a viable and strong organization that would compete successfully in the Swedish market, we are positive about the developments so far and see potential for further growth and ensuring profitability in a large market when we have been able to stabilise our order book growth at the desired level. The decline in real estate prices that took place in 2018 has reduced the demand for housing construction. Therefore, the starting dates of many projects are being postponed. According to forecasts, in the next few years housing construction in Sweden will decrease compared to the peak level of 2017. However, the construction market will be positively influenced by sustained growth in investments made by the government and high demand for office space in large cities.

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. Demand for construction services continues to be strongly influenced by the volume of public investment. This, in turn, depends in part on the co-financing received from the EU structural funds.

Competition continues to be stiff in all segments of the construction market. However, bidders' prices are under strong competitive pressure in a situation where the prices of construction inputs have been consistently rising, driven by growth in labour costs. Increasingly, bidders include not only rival general contractors but also former subcontractors. This is mainly attributable to the central and local governments' policy to keep the qualification requirements of public procurements low, which sometimes results in sacrificing quality and adherence to deadlines to the lowest price. We acknowledge the risks involved in the performance of contracts signed in an environment of stiff competition and continuously 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.

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 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 construction, earthworks, 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 the chapter *Performance by business line*). Where possible, our entities implement different technical solutions that also allow working efficiently in changing 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 the 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 2018, the Group's warranty provisions (including current and non-current ones) totalled 900 thousand euros (31 December 2017: 1,249 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 pre-construction 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

The Group's credit losses for the period totalled 16 thousand euros. In 2017, credit losses totalled 37 thousand euros. The overall credit risk exposure of the portfolio 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 continuously 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 ratio was 1.12 (31 December 2017: 1.11). The key factor which influences the current ratio is the classification of the Group's loans to its Ukrainian associate 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 loan to its Ukrainian associate of 7,780 thousand euros (2017: 8,492 thousand euros) was classified as a non-current asset.

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 2018, the Group's short-term borrowings totalled 9,374 thousand euros (31 December 2017: 16,197 thousand euros).

At the reporting date, the Group's cash and cash equivalents totalled 7,678 thousand euros (31 December 2017: 8,915 thousand euros).

INTEREST RATE RISK

The Group's interest-bearing liabilities to banks have both fixed and floating interest rates. Finance lease liabilities have mainly floating interest rates. The base rate for most floating-rate contracts is EURIBOR. During the period, interest-bearing borrowings decreased by 5,786 thousand euros. Factoring liabilities and current loan liabilities declined (see the section *Liquidity risk*). At 31 December 2018, interest-bearing borrowings totalled 24,204 thousand euros (31 December 2017: 29,990 thousand euros). Interest expense for 2018 amounted to 781 thousand euros (2017: 655 thousand euros). Interest expense increased due to more extensive use of overdrafts.

The main source of interest rate risk is a possible rise in the base rates of floating interest rates. In the light of the Group's relatively heavy loan burden, this would cause significant growth 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 an 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 is unstable because the political and economic environment in Ukraine continues to be strained due to the conflict between Ukraine and Russia, which broke out at the beginning of 2014, and the discontinuance of the determination of the national currency's indicative exchange rate by the National Bank of Ukraine at the beginning of 2015. In 2018, the hryvnia strengthened against the euro by approximately 5.6%. As a result, the Group's Ukrainian subsidiary, which has to translate its euro-denominated loans into the local currency, recognised a foreign exchange gain of 147 thousand euros (2017: an exchange loss of 416 thousand euros). The exchange gain and loss 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.

Our Ukrainian and non-Ukrainian entities' reciprocal receivables and liabilities that are related to the construction business and denominated in hryvnias do not give rise to any exchange gains or losses. Nor does the loan provided to the Ukrainian associate in euros give rise to any exchange gains or losses in the Group's financial statements.

In 2018, the Swedish krona weakened against the euro by around 4.0%. Due to the change in the krona/euro exchange rate, the translation of operating receivables and payables resulted in an exchange loss of 76 thousand euros (2017: 15 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 121 thousand euros (2017: 35 thousand euros). The 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 performance. To strengthen Nordecon's reputation as an employer and make sure that we will have employees in the future, we collaborate with educational institutions. We also depend extensively on our subcontractors' ability to ensure the availability of personnel with the required skills and qualifications.

To successfully overcome the challenges of management and meet our customers' expectations regarding professional competence, it is important to continuously develop our people. We invest in improving the leadership and management skills of our key personnel and the professional skills of our employees by providing training and ensuring that they have the appropriate professional certificates.

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

ENVIRONMENTAL RISKS

Construction activities change landscapes and the physical environment of cities and settlements. The Group's goal is to do its work and at the same time protect the natural environment as much as possible. Our assets and operations which have the strongest impact on the environment and, thus, involve the highest environmental risk are asphalt plants, quarries used for the extraction of construction materials and road construction sites. We protect the environment on our construction sites by using materials efficiently and handling and managing waste properly. To prevent excessive waste, leaks, spills, pollution, destruction of wildlife and other damage to the environment, we comply with legal requirements. All our construction entities have implemented environmental management standard ISO 14001.

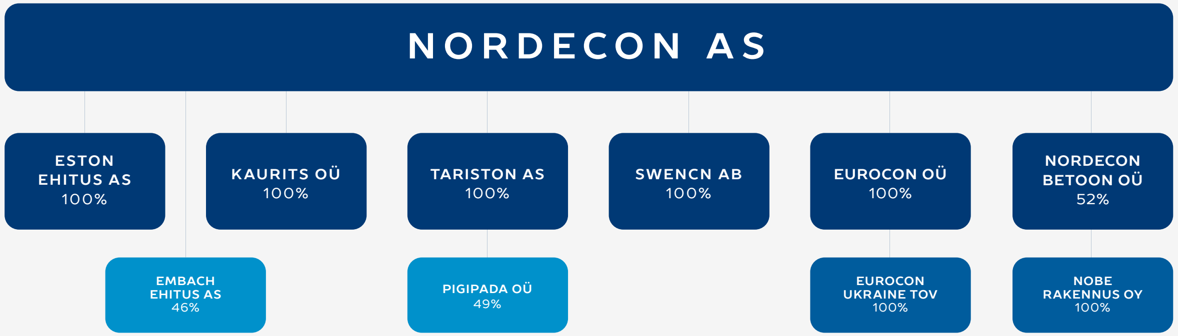
CORRUPTION AND ETHICAL RISKS

As one of the leading construction companies in Estonia, we realise that it is important to be aware of the risks involved in breaching honest and ethical business practices and to make sure that our entities' management quality, organizational culture and internal communication emphasise zero tolerance for dishonest, unethical and corrupt behaviour. Transparent decisions and communication are based on effective cooperation in Group units and entities and in communication with business partners as well as the application of IT solutions that increase openness. The Group has established internal procedures and regulations, observes the rules of the Tallinn Stock Exchange and cooperates with external and internal auditors as well as supervisory agencies.

BUSINESS AND FINANCIAL REVIEW

GROUP STRUCTURE

THE GROUP'S STRUCTURE at 31 December 2018, including interests in subsidiaries and associates*



*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, Kastani Kinnisvara OÜ, EE Ressursid OÜ, SWENCN OÜ, Nordecon Statyba UAB, Eurocon Bud TOV, Technopolis-2 TOV and the associate V.I. Center TOV, which currently do not engage in any significant business activities. The first four were established to protect business names. Nor does the structure include investments in entities in which the Group's interest is less than 20%.

SIGNIFICANT CHANGES IN GROUP STRUCTURE

MERGER OF SUBSIDIARIES

In August 2018, the merger of Nordecon AS's wholly-held subsidiaries Eurocon Vara OÜ and Eurocon OÜ was finalised. In the transaction, Eurocon Vara OÜ was the acquirer and Eurocon OÜ the acquiree. The merger was entered in the Commercial Register on 7 August 2018. The combined entity continues to operate under the name of Eurocon OÜ.

NAME CHANGE OF A SUBSIDIARY

In September 2018, the business name of Nordecon Betoon OÜ's wholly-held Finnish subsidiary Estcon OY was changed for NOBE Rakennus OY. The purpose of the name change was to adopt the same trade name, NOBE, which Nordecon Betoon OÜ uses in Estonia.

ACQUISITION OF INTERESTS

OÜ KAURITS

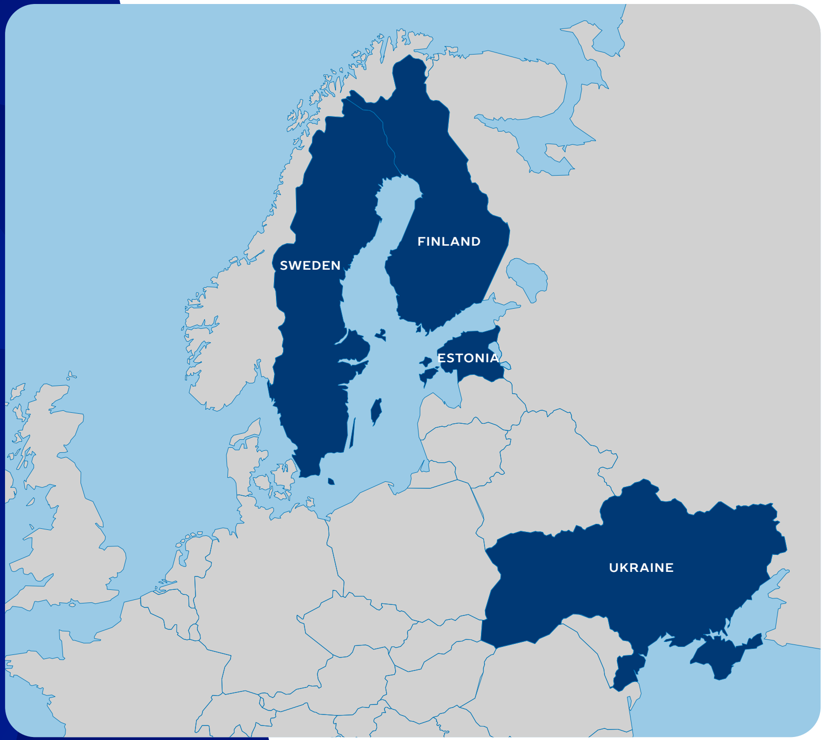
In October 2018, Nordecon AS acquired a 34% non-controlling interest in its subsidiary OÜ Kaurits in which it already held a 66% stake. The purpose of the transaction was to improve construction management efficiency in the Infrastructure segment. After the transaction, OÜ Kaurits is a wholly-held subsidiary of Nordecon AS.

SWENCN OÜ

In December 2018, Nordecon AS acquired a 40% non-controlling interest in its subsidiary, SWENCN OÜ. SWENCN OÜ held 100% of the shares in SWENCN AB, a construction company belonging to Nordecon Group that is registered and provides general contractor's services in Sweden. The purpose of the transaction was to gain full ownership of a subsidiary that operates in a foreign market important for Nordecon AS. Through the transaction, SWENCN OÜ became a wholly-held subsidiary of Nordecon AS. After the acquisition of full ownership, Nordecon AS purchased from the subsidiary, SWENCN OÜ, 100% of the shares in SWENCN AB.

TECHNOPOLIS-2 TOV

In December 2018, Nordecon AS's wholly-held subsidiary, Eurocon OÜ, acquired a 50% interest in an associate, Technopolis-2 TOV, registered in Ukraine in which Nordecon AS already held, through subsidiaries, a 50% stake. By the transaction, Nordecon AS became, through wholly-held subsidiaries, the sole owner of Technopolis-2 TOV. The purpose of the transaction was to gain full ownership of a development project on terms attractive for the Group.



THE GROUP'S OPERATIONS IN ESTONIA AND FOREIGN MARKETS

ESTONIA

The Group was involved in building and infrastructure construction, providing services 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 Kose maintenance area in Harju county and in Järva and Hiiu counties (Tariston AS).

We did not enter any new operating segments in Estonia.

FOREIGN MARKETS

UKRAINE

Ukraine's political and economic environment continued to be influenced by the conflict between Ukraine and Russia which broke out at the beginning of 2014. In recent years, our business activity in Ukraine has increased but we have remained conservative about the contracts we sign. The Group's projects are mainly located 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. We have accepted contracts only when we have been certain that the risks involved are reasonable given the circumstances. The situation in the Kiev region is stable, considering the backdrop, and companies have adapted to the new environment. In 2018, our Ukrainian business volumes doubled compared to 2017.

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

FINLAND

There were no changes in our Finnish operations during the period under review. The Group's subsidiary Nordecon Betoon OÜ and its Finnish subsidiary NOBE Rakennus OY continued to provide subcontracting services in the concrete work segment in Finland.

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 a building construction contract secured as a general contractor. The subsidiary continued to develop its organization and active sales activities in order to win new contracts.

PERFORMANCE BY GEOGRAPHICAL MARKET

The contribution of the Group's foreign markets has remained stable in recent years. In 2018, revenue earned outside Estonia accounted for 7% of our total revenue.

	2018	2017	2016	2015	2014
ESTONIA	93%	94%	93%	96%	94%
UKRAINE	4%	2%	2%	3%	2%
SWEDEN	2%	3%	4%	0%	0%
FINLAND	1%	1%	1%	1%	4%

The share of the Group's Ukrainian revenues grew substantially compared to 2017. In Ukraine, we provided general contractor's services under one infrastructure and two building construction contracts and the share of concrete works performed in the building construction segment also increased significantly. The share of Swedish revenues decreased year on year. During the period, we provided services under two construction contracts secured as a general contractor. Our Finnish revenues resulted from concrete works in the building construction segment.

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 chosen foreign markets are also volatile and affect 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.

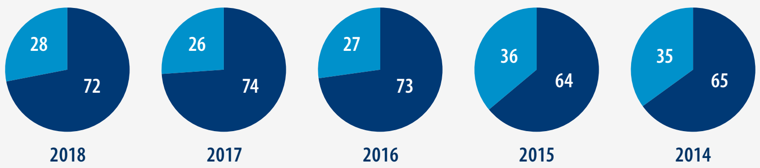
Nordecon's revenues for 2018 totalled 223,496 thousand euros, a roughly 3.4% decrease from the 231,387 thousand euros generated in 2017. The revenue generated by the Infrastructure segment grew by around 7% but due to the difference in the segments' revenue volumes, this did not counterbalance the decline (7%) in the revenue generated by the Buildings segment. The shortage of 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 2018, our Buildings and Infrastructure segments generated revenue of 162,909 thousand euros and 60,086 thousand euros respectively. The corresponding figures for 2017 were 174,447 thousand euros and 56,335 thousand euros (see note 25). Since a substantial share of Nordecon's revenue for 2018 was earned in Estonia, our revenue structure reflects quite fairly the overall situation in the Estonian construction market (see the chapter *Market trends*).

REVENUE BY SEGMENT*



OPERATING SEGMENTS

BUILDINGS

INFRASTRUCTURE

* 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 are allocated in both parts of the report based on the nature of the work.

SUB-SEGMENT REVENUES

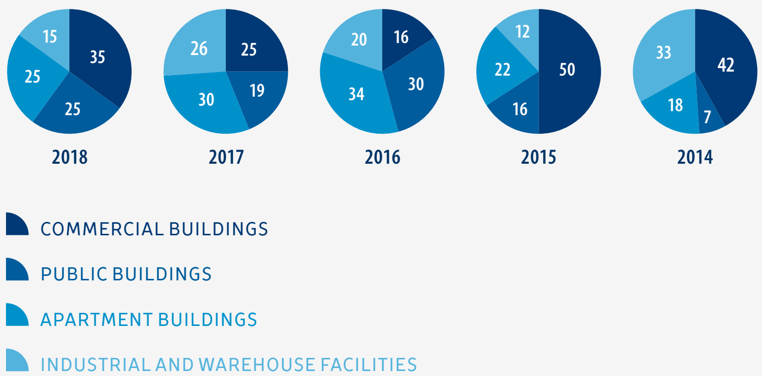
In the Buildings segment, the largest revenue source is the commercial buildings sub-segment. In 2018, its revenue grew significantly: by around 27% compared to 2017. During the period, we completed the construction of an office building at Lõõtsa 12 and a multi-storey car park at Sepise 8 in Ülemiste City in Tallinn, a 14-floor commercial and residential building in the WoHo quarter at Mustamäe tee 3 in Tallinn and the Møller Auto dealership and the Omniva logistics centre in Rae parish near Tallinn. We continue the reconstruction and extension of the building of Terminal D in the Old City Harbour in Tallinn.

In 2018, the revenue of the public buildings sub-segment grew by 28% compared to 2017. The results of the sub-segment continue to be strongly influenced by investments made in national defence. During the period, we continued to build the Estonian Academy of Security Sciences building in Tallinn. The construction of infrastructure for armoured vehicles at the Defence Forces' base at Tapa has reached its final stage. We delivered to customers the Abja Health Centre building and barracks completed at the Defence Forces' base at Tapa.

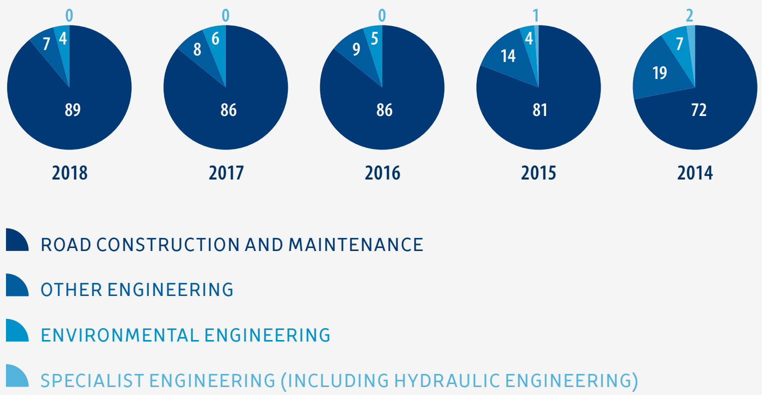
The share of revenue generated by the apartment buildings sub-segment decreased by around a quarter compared to 2017. In Estonia, a substantial part of the Group's apartment building projects is located in Tallinn. In 2018, the largest of them were apartment buildings at Sõjakooli 12 (phases III and IV) and Lesta 10. We completed and delivered to customers the Meerhof 2.0 apartment building complex at Pirita tee 20a and phase II of the Sõjakooli 12 project. Foreign markets continue to contribute a major share of the sub-segment's revenue. In Ukraine, we completed the construction of a residential area in the city of Brovary in the Kiev region. In Sweden, we completed the design and construction of an eight-floor apartment building in Stockholm.

We continue work on our own housing developments in Tartu and Tallinn (reported in the apartment buildings sub-segment). During the period, we completed the development of a new residential area in the Tammelinn district in Tartu. In the course of development which began in March 2014, we built nine apartment buildings with a total of 193 apartments (www.tammelinn.ee). We also began work in two new development projects: at Nõmme tee 97 in Tallinn where we are going to build a four-floor apartment building with 21 apartments (www.nomme-tee.ee) and at Aruküla tee in Tartu where we are going to build three apartment buildings with 10 apartments each (www.kaldakodu.ee). We continue to sell apartments in both of the above development projects as well as in the project completed in 2017 at Magasini 29 (www.magasini.ee) in Tallinn. Our development revenues for 2018 totalled 9,369 thousand euros (2017: 6,533 thousand euros). In carrying out our development activities, we monitor closely potential risks in the housing development market.

REVENUE BREAKDOWN IN THE BUILDINGS SEGMENT



REVENUE BREAKDOWN IN THE INFRASTRUCTURE SEGMENT



The revenue of the industrial and warehouse facilities sub-segment decreased substantially compared to 2017. The largest project was the construction of the Metsä Wood plywood mill in Pärnu, which was successfully completed. The volumes of the sub-segment continue to be supported by orders placed by the agricultural sector. During the period, the largest of these included the construction of the Mätliku robotic dairy shed, a cattle shed for Kraavi Põllumajandus OÜ and the Lähtru grain terminal as well as the reconstruction (phase IV) of the fattening unit of the pig farm of Rakvere Farmid AS (EKSEKO). We continue to perform a design and build contract for the construction of a warehouse and office building at Kaldase tee 4 in Maardu.

Based on the order book at the end of the reporting period and contracts secured in 2019, the Buildings segment will continue to be dominated by the commercial and public buildings sub-segments.

For a long time, the Infrastructure segment has been dominated by the road construction and maintenance sub-segment whose relative importance has been increasing year by year. During the period, a significant portion of its revenue resulted from major projects performed under contracts secured in 2017: 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 passing lanes for a 2+1 road on the Valmaotsa–Kärevere section of the Tallinn–Tartu–Võru–Luhamaa road. In 2018, we also secured contracts for the reconstruction of two sections of the Riga–Pskov road (km 195.6–205.8 and 207.8–209.2) and the construction of the Veskitammi intersection in Laagri, on the border of Tallinn. The construction of the latter will continue in 2019. A substantial share of the period's revenue also resulted from forest road improvement services provided to the State Forest Management Centre. We continued to render road maintenance services in Järva and Hiiu counties and the Kose maintenance area in Harju county.

Contracts secured by the environmental engineering and other engineering (utility network construction) sub-segments are generally small. Thanks to a contract signed in 2018 for performing earthworks on the Kiili–Paldiski section of the mainland part of Balticconnector (a gas pipeline), it is likely that in 2019 other engineering revenue will remain at the level of the reporting period.

Based on management's assessment, in 2019 revenue breakdown in the Infrastructure segment will not change significantly and road construction and maintenance will remain the segment's main revenue source.

FINANCIAL REVIEW

FINANCIAL PERFORMANCE

Despite continuously stiff competition, Nordecon increased gross profit compared to 2017. The Group ended 2018 with a gross profit of 10,033 thousand euros (2017: 8,695 thousand euros) and a gross margin of 4.5% (2017: 3.8%). In the fourth quarter, the gross margin improved considerably, rising to 6% (Q4 2017: 3.4%). In annual terms, both operating segments increased their profitability. The gross margin of the Buildings segment was 4.7% for 2018 and 8.3% for the fourth quarter (2017: 4.0% for the year and 3.3% for Q4) while the gross margin of the Infrastructure segment was 5.6% for 2018 and 1.9% for the fourth quarter (2017: 4.1% for the year and 4.5% for Q4). Due to quickly changing weather conditions, the end of the year was more complicated than expected in the provision of winter maintenance on national roads. This weakened the fourth-quarter results of the Infrastructure segment. The gross margin of the Buildings segment was affected, particularly in the first half of the year, by a lower than expected gross margin in the apartment buildings sub-segment. The margins of long-term contracts secured in 2016 and 2017 were undermined by a continuous rise in subcontracting charges, particularly growth in labour costs during the contract performance phase. Margins also continue to be affected by the conclusion of an insufficient volume of new contracts in Sweden, which gives rise to uncovered fixed costs. We monitor the proportions of different segments in the Group's portfolio closely in order to better manage the risks resulting from changes in input prices.

The Group's administrative expenses for 2018 amounted to 6,725 thousand euros. Compared to 2017, administrative expenses decreased by around 3.0% (2017: 6,936 thousand euros) and the ratio of administrative expenses to revenue was 3.0% (2017: 3.0%). Both in the reporting and the comparative period, administrative expenses were influenced by changes on the Group's board (see also the chapter *Employees and personnel expenses*).

The Group's operating profit for 2018 amounted to 4,031 thousand euros (2017: 1,102 thousand euros). EBITDA amounted to 6,021 thousand euros (2017: 3,123 thousand euros).

Finance income and costs for the period continued to be influenced by exchange rate fluctuations in the Group's foreign markets. Although the Ukrainian hryvnia strengthened against the euro by around 5.6% and the Group recognised an exchange gain of 147 thousand euros (2017: an exchange loss of 416 thousand euros) on the translation of a loan provided to the Ukrainian subsidiary in euros, the Swedish krona weakened against the euro by around 4% and the Group recognised an exchange loss of 121 thousand euros (2017: 35 thousand euros) on the translation of a loan provided to the Swedish subsidiary in euros.

The Group's net profit amounted to 3,821 thousand euros (2017: 1,725 thousand euros), of which the net profit attributable to owners of the parent, Nordecon AS, was 3,381 thousand euros (2017: 1,388 thousand euros).

CASH FLOWS

In 2018, operating activities produced a net cash inflow of 4,692 thousand euros (2017: an outflow of 1,748 thousand euros). Positive net operating cash flow is attributable to growth in the Group's own development operations and the collection of the contractual retentions (5-10% of the contract price) of major construction projects which have been completed. Operating cash flow continues to be strongly influenced by the fact that the contracts signed with both public and private sector customers do not require them to make advance payments while the Group has 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 2,934 thousand euros (2017: an inflow of 4,660 thousand euros, which was influenced by the sale of a subsidiary and a joint venture). Cash flow was strongly influenced by proceeds from the sale of property, plant and equipment of 1,784 thousand euros (2017: 49 thousand euros) and investment property of 1,300 thousand euros (2017: nil euros) and acquisition of property, plant and equipment of 534 thousand euros (2017: 348 thousand euros). Dividends received amounted to 460 thousand euros (2017: 153 thousand euros).

Financing activities generated a net cash outflow of 8,863 thousand euros (2017: an outflow of 3,770 thousand euros). The largest items were loan and finance lease payments. Proceeds from loans received amounted to 2,898 thousand euros, consisting of development loans and overdrafts (2017: 9,207 thousand euros). Loan repayments totalled 4,671 thousand euros (2017: 4,245 thousand euros), consisting of scheduled repayments of long-term investment and development loans. Finance lease payments amounted to 1,879 thousand euros (2017: 2,252 thousand euros). Dividends paid in 2018 totalled 2,627 thousand euros (2017: 4,497 thousand euros). Payments made on the reduction of share capital totalled 1,847 thousand euros (2017: 1,384 thousand euros).

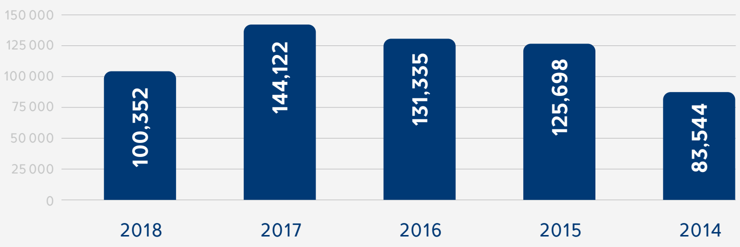
At 31 December 2018, the Group's cash and cash equivalents totalled 7,678 thousand euros (31 December 2017: 8,915 thousand euros). Management's commentary on liquidity risks is presented in the chapter *Description of the main risks*.

KEY FINANCIAL FIGURES AND RATIOS

FIGURE/RATIO FOR THE PERIOD	2018	2017	2016	2015	2014
Revenue (EUR '000)	223,496	231,387	183,329	145,515	161,289
Revenue change	-3.4%	26.2%	26.0%	-9.8%	-7.1%
Net profit (EUR '000)	3,821	1,725	3,933	174	2,298
Net profit attributable to owners of the parent (EUR '000)	3,381	1,388	3,044	179	1,956
Weighted average number of shares	31,528,585	30,913,031	30,756,728	30,756,728	30,756,728
Earnings per share (EUR)	0.11	0.04	0.10	0.01	0.06
Administrative expenses to revenue	3.0%	3.0%	3.3%	3.5%	3.5%
EBITDA (EUR '000)*	6,021	3,123	6,017	5,769	5,585
EBITDA margin	2.7%	1.3%	3.3%	4.0%	3.5%
Gross margin	4.5%	3.8%	6.0%	6.2%	6.1%
Operating margin	1.8%	0.5%	2.3%	2.7%	2.5%
Operating margin excluding gain on asset sales	1.3%	0.5%	2.2%	2.4%	2.3%
Net margin	1.7%	0.7%	2.1%	0.1%	1.4%
Return on invested capital	8.4%	5.9%	8.5%	2.1%	5.8%
Return on equity	11.2%	4.8%	10.6%	0.5%	6.4%
Equity ratio	32.4%	30.8%	38.6%	40.1%	37.3%
Return on assets	3.5%	1.6%	4.2%	0.2%	2.3%
Gearing	28.5%	32.7%	16.7%	25.5%	24.8%
Current ratio (note 5)	1.12	1.11	1.20	1.03	1.02

AS AT 31 DECEMBER

ORDER BOOK (EUR '000)



* 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.

Revenue change = (revenue for the reporting period / revenue for the previous period) – 1 * 100

Earnings per share (EPS) = net profit or loss attributable to owners of the parent / weighted average number of shares outstanding

Administrative expenses to revenue = (administrative expenses / revenue) * 100

EBITDA = operating profit or loss + depreciation and amortisation + impairment losses on goodwill

EBITDA margin = (EBITDA / revenue) * 100

Gross margin = (gross profit or loss / revenue) * 100

Operating margin = (operating profit or loss / revenue) * 100

Operating margin excluding gain on asset sales = ((operating profit or loss – gain on sales of non-current assets – gain on sales of real estate) / revenue) * 100

Net margin = (net profit or loss for the period / revenue) * 100

Return on invested capital = ((profit or loss before tax + interest expense) / the period's average (interest-bearing liabilities + equity)) * 100

Return on equity = (net profit or loss for the period / the period's average total equity) * 100

Equity ratio = (total equity / total liabilities and equity) * 100

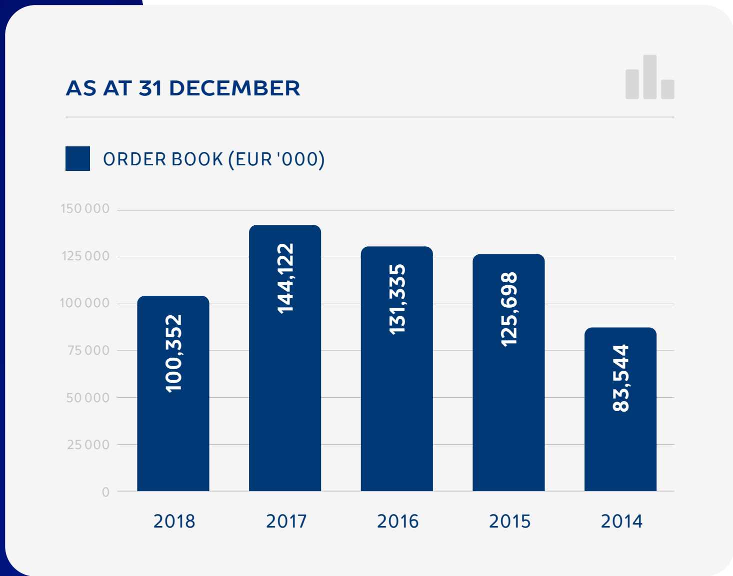
Return on assets = (net profit or loss for the period / the period's average total assets) * 100

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 2018, the Group's order book (backlog of contracts signed but not yet performed) stood at 100,352 thousand euros, a decrease of roughly 30% compared to the end of 2017. One of the reasons for the decrease in the Group's order book is that the decision-making processes of public procurements carried out in the second half of 2018 (periods from the submission of a bid to the conclusion of a contract) took longer than usual.



At the reporting date, contracts secured by the Buildings segment and the Infrastructure segment accounted for 72% and 28% of the Group's total order book respectively (31 December 2017: 75% and 25% respectively). Compared to 31 December 2017, the order books of the Buildings segment and the Infrastructure segment have decreased by 34% and 20% respectively.

The order books of the commercial buildings and apartment buildings sub-segments account for an equal share, approximately a third each, of the order book of the Buildings segment. In the commercial buildings sub-segment, the largest projects in progress are in Tallinn: the reconstruction and extension of the building of Terminal D in the Old City Harbour at Lootsi 13/4, the design and construction of an eight-floor accommodation building on the property at Liimi 1B and the construction of a multi-storey car park at Sepapaja 1. The order book of the apartment buildings sub-segment includes mainly contracts for the construction of apartment buildings in Tallinn. However, there is also a housing development project in the Stockholm area in Sweden. A major share of the order book of the public buildings sub-segment is made up of contracts for the construction of a state secondary school at Kohtla-Järve and the Peetri sports and leisure centre in Rae parish. The order book of the industrial and warehouse facilities sub-segment has decreased significantly.

The order book of the Infrastructure segment continues to be underpinned by contracts of the road construction and maintenance sub-segment which account for around 72% of the segment's order book. The largest projects in the road construction order book are the construction of the Veskitammi intersection in Laagri, on the border of Tallinn, passing lanes for a 2+1 road on the Pikknurme-Puurmani section (km 142.2-146.9) of the Tallinn-Tartu-Võru-Luhamaa road, and roads and bridges for the Defence Forces' central training area in Kuusalu parish. The Group continues to provide road maintenance services in three road maintenance areas: Järva, Hiiu and Kose. In July 2018, the Group signed a contract for the performance of earthworks on the 53 kilometre-long Kiili-Paldiski section of the mainland part of Balticconnector (a gas pipeline), which accounts for a significant share of the order book of the Infrastructure segment.

Based on the size of the Group's order book and known developments in our chosen markets, we expect that in 2019 the Group's revenue will remain at the level of 2018. In an environment of exceptionally stiff competition, we avoid taking unjustified risks whose realisation in the contract performance phase would have an adverse impact on the Group's results. Our preferred policy is to keep fixed costs under control and monitor market developments closely.

INVESTMENTS AND CAPITAL EXPENDITURES

EQUITY INVESTMENTS

In 2018, 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

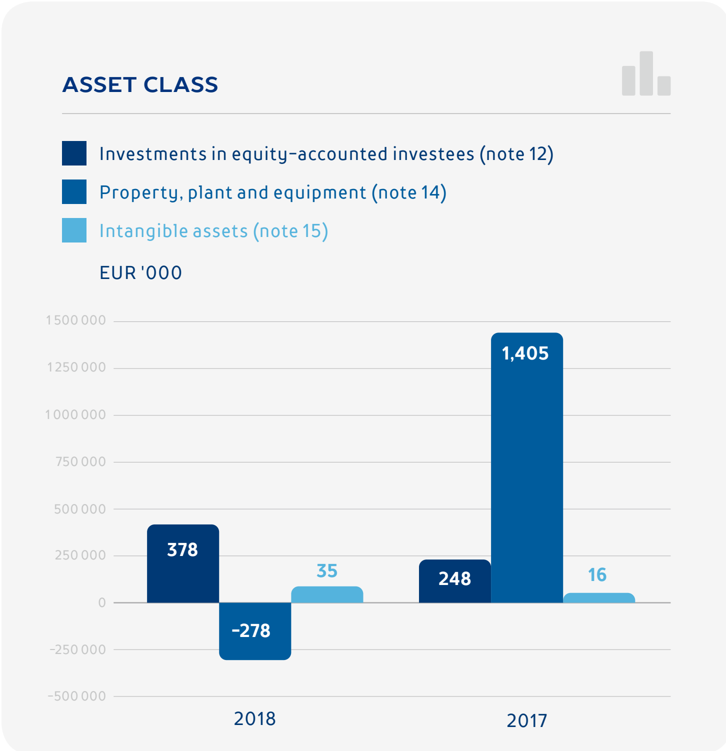
During the period, we acquired new investment properties of 88 thousand euros (properties held for resale, rental income or capital appreciation). We sold an investment property in Tartu (see note 13 to the financial statements).

INVESTMENTS IN PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

Capital expenditures on property, plant and equipment totalled 1,948 thousand euros in 2018 (2017: 2,256 thousand euros) (see note 14). Investments made 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



In 2019, the volume of capital expenditures will remain comparable to 2018. The focus will be on replacing obsolete machinery and equipment and improving operating efficiency.

QUALITY SERVICE AND CUSTOMER EXPERIENCE

The best indicators of the work of a construction company are properly managed projects resulting in buildings and infrastructure assets built to the agreed quality and completed on schedule. A quality end-result means the delivery of a durable and safe building or infrastructure asset that meets the customer's expectations. Quality work, transparent activity and open communication with the customer throughout the construction process ensure the highest level of customer satisfaction.

Customers' quality requirements and expectations have increased over time – customers and end-users want the best available solution and end-result for their money. In construction, the end-result is the best when the customer, the owner's engineer and builders (also home buyers in the case of apartment buildings) work together and follow uniform principles in order to achieve the best outcome.

We have come to understand that a successful project requires open and honest communication between all parties. The customer must have clear and fair expectations. The construction company's responsibility is to provide the customer with regular feedback, share information transparently and solve any issues in a timely manner. In apartment building projects, it is important that the customer and real estate brokers understand their responsibility in setting the right expectations for buyers.

QUALITY COMPRISES MANY ELEMENTS

In road construction, the most important factor that influences quality is the correct use of suitable materials. To verify this, 12 different quality tests are performed and hundreds of material samples are taken from each section of the road during the construction process. Equally important are traffic management during road works and the visual aspect of the road being built because the end-user appreciates comfort, convenience, cleanliness and visual appeal, not the technical parameters. It is important for Group entities to be able to understand and take into account customers' different expectations.

QUALITY MANAGEMENT ENSURES SAFETY

Safety is the most important outcome of high-quality construction work. Thus, Group entities' primary and most important responsibility is to build safe and secure buildings and infrastructure assets. Safety depends on both the project and its execution, including:

- planning and design that meet applicable requirements;
- the selection of suitable materials;
- safe technical solutions;
- proper order of works and compliance with technological requirements;
- consistent supervision and control of critical operations in each area of work.

The Group understands its role in ensuring end-user safety and makes no concessions in matters related to the safety of completed buildings and infrastructure assets. Any design and construction errors identified during regular inspections carried out during the project are corrected. When a project is completed, the customer receives instructions for maintaining the quality, state and safety of the building or infrastructure asset.

In 2018, there were no instances of non-conformity with health and safety regulations or voluntarily observed safety codes related to projects completed by Group entities.

For example, the Group's subsidiary, Tariston AS, which provides road maintenance services, has an equally important role in ensuring safe conditions for road traffic. To this end, the subsidiary observes the requirements of the Critical Service Continuity Plan for National Main and Basic Roads.

QUALITY MANAGEMENT SYSTEM

Successful execution of the Group's construction projects is based on conscious and systematic quality management. To ensure the compliance of work done and meet goals set, we observe in all our projects:

- the customer's requirements and project documentation;
- construction legislation, regulations and standards;
- the Group's management system.

The Group's quality, environmental, and health and safety management systems are based on the requirements of the relevant international standards (ISO 9001, ISO 14001, OHSAS 18001/ISO 45001).

The purpose of a Group-wide core framework is to make sure that similar overall quality, work arrangement and open communication principles are observed in all projects managed by the Group. Each subsidiary applies the management system consistent with the nature of its business, and each project and site manager uses the system to establish a context-specific work arrangement.

For a management system to be used in practice, employees need to be informed and aware, the system must be consistently updated with relevant information and results must be regularly reviewed by management. The Group's quality management department supports other units and project teams in implementing the system and regular internal audits of the management system are carried out on the construction sites, in the structural units and among the managers of the parent. In 2018, internal audits of the management system did not detect any instances of non-conformity that might have prevented the achievement of goals set.

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

The Group maintains a Deficiencies and Suggestions Register where all written orders, 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. Particular attention is paid to complaints – each case is resolved and conclusions are drawn to avoid similar mistakes in the future.

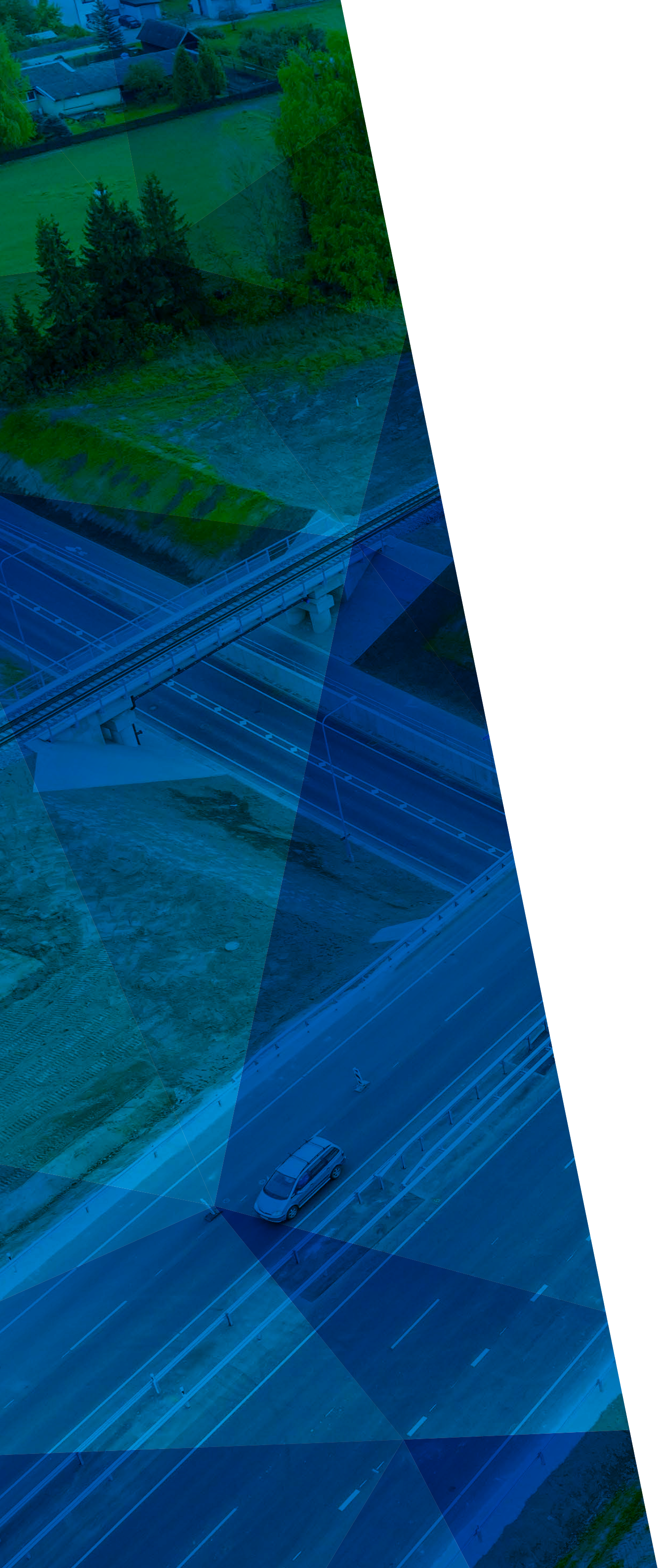
In 2018, the Group was charged a fine of 150,000 euros for not meeting the deadlines of a project. An analysis of the case revealed that it could have been avoided by communicating with the customer in a timely and transparent manner and scheduling the project more accurately. Based on conclusions drawn, we were able to plan our work better and deliver subsequent assets to the same customer ahead of schedule.

QUALITY COEFFICIENT

At the parent company, each completed asset (building or infrastructure asset) 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 INCIDENTS (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.



PROJECT MANAGEMENT AND COOPERATION WITH CUSTOMERS TO ENSURE TIMELY COMPLETION

The Group's goal is to finish construction work by the date agreed with the customer. In addition to shortages of qualified labour and the occasional unreliability of subcontractors, completion may be delayed by unforeseen circumstances arising during the work. To provide for contingencies and ensure timely completion, the Group applies, among other measures, the following three approaches:

1. We plan construction works so that their actual substantial completion is achieved ahead of schedule. This leaves sufficient time for liquidating possible deficiencies in the final phase of the works and delivering the building or infrastructure asset in the state of final completion on time.

On-time completion starts in the preparation and planning stage. Therefore, in 2018 a lot of attention was paid to enforcing this way of thinking among our project managers. Forward-looking planning helps start work on time and ensures that construction teams are adequately staffed. In the construction phase, efficiencies can be achieved by simplifying workflows and improving people and process management.

2. We pay increasingly more attention to proactive and transparent communication with customers. Careful planning of each project helps anticipate potential challenges. It is important for project and site managers to notice problems and evaluate their importance without delay, to be forthcoming about the issues with their direct superior, the customer and other parties, and to find a solution together, in a flexible manner.

Multilateral open communication and willingness to co-operate are the basis for trust in relationships, which in turn, allows for quicker decision-making during the construction process so that timely completion of the project is not affected.

3. We seek more efficient and optimal solutions for the initial master design provided by the customer. Before work commences, our own design units or the designers brought in by the customer are tasked with making corrections to the design, and removing inconsistencies and over-dimensional solutions. In addition to saving time, a joint review of designs and the selection of the most appropriate construction technology helps save costs and improve the quality of the end-result.

For example, in the case of major projects, customers increasingly ask construction companies to provide new modern solutions, which require new materials and more complex structures. This, in turn, makes the construction process more complicated and puts pressure on the project's deadline and budget. For us this means that during the project we have to work closely with the customer and subcontractors to find suitable engineering solutions, and negotiate new agreements on the use of materials and time schedule without compromising on the desired quality.

Our subsidiary Nordecon Betoon OÜ has one of the largest design units among construction companies in Estonia. It is a development unit of 10 employees whose main task is to design assets and improve customers' designs. The progress of a construction project can be influenced the most in the planning phase, which is why planning is key to achieving efficiency.

TECHNOLOGICAL CAPABILITIES AND INNOVATIVE SOLUTIONS

Similarly to other sectors, the general trend in construction is towards digitalisation. In addition to construction companies, this must be embraced by customers.

The substitution of paper documents with electronic ones increases transparency, improves efficiency and ensures accuracy. Electronic systems help manage, archive and check projects and leave more time for managing construction work. Project teams' innovation and increased technological capabilities make it possible to manage increasingly more complex and demanding projects and offer employees modern development opportunities.

We have implemented a number of new engineering and IT systems to ensure that our construction work is efficient and accurate:

Our most important IT development of 2018 was full-scale transition to the Bauhub system at the parent and many subsidiaries. Bauhub is a system for preparing, signing and storing construction project documents. It is a transparent solution that is accessible to all parties – the customer, the designer, the general contractor and the representatives of subcontractors. Bauhub increases openness and simplifies work.

The use of Bauhub made the construction of the Haabersti intersection the first fully digitally managed project. The customer's high satisfaction with the asset is partly attributable to Bauhub-based communication.

In 2018, Tariston AS started using drones for measuring the volume of earth in quarries and on construction sites (in closed road sections). The parent increasingly uses GPS Rovers instead of surveyors to identify the locations required in road construction.

In late 2018, we piloted a new procurement management environment. The information system developed in the Group contains all our information about our subcontractors (contact details and history, assessments of prior cooperation, etc.) and facilitates the technical execution of procurements. The daily updated database provides the staff responsible for procurement with information required for making the best choice.

BIM (Building Information Modelling), a 3D model-based software used for planning and designing buildings and infrastructure, has become a standard tool in our project planning and management. BIM makes the entire process more transparent, helps prevent problems and ensures a better end-result. After the asset has been delivered, the information stored in the model also allows the customer using the asset to find information about equipment and materials maintenance, products and suppliers. In 2018, we used the BIM in 47 projects (2017: 31; 2016: 15).

CUSTOMER SATISFACTION

An understanding of customers' needs and expectations, a smooth execution of projects and the delivery quality end-results ensure good feedback and we work daily to achieve customer satisfaction. Each customer is important for us. Besides providing quality service, we maintain customer relations through personal communication.

- On the one hand, this means that our project and site managers and foremen play a key role in creating trust and shaping the Group's reputation in the eyes of our customers, primarily through professional and transparent communication and regular meetings.
- On the other hand, this includes remembering customers' representatives on holidays and special occasions and inviting them to customer events that are often attended by their project teams.

When we deliver a building or infrastructure asset, we give the customer a piece of metal art to remember us by. The concept of the work is based on the completed building or infrastructure asset.

To ensure and increase customer satisfaction, the parent asks its customers to rate different aspects of cooperation on a 12-point scale. The questionnaire enables the customer 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 the project an overall rating. In 2018, the satisfaction index of the parent's customers was 10.98 points out of 12, i.e. 92% of the maximum (2017: 77%).

Subsidiaries that also measure customer satisfaction, apply different scales. In 2018, their customer satisfaction ratings were as follows: Eston Ehitus AS 83% (2017: 75%), Tariston AS 90% (2017: 93%) and Kaurits OÜ 100% (2017: customer satisfaction was not measured) of the maximum.

Customer satisfaction with the work of Group entities has either increased significantly or remained stable.

The Meerhof 2.0 complex consisting of two apartment buildings, delivered to Metro Capital by the Group's parent in 2018, stands out for its high-quality and luxurious finishing. The complex has Class B energy-efficiency – solar power plants on the roofs of low-energy buildings save costs and the environment. Each apartment has a smart house solution for controlling the heating, cooling and ventilation systems.

LOCAL COMMUNITIES

Disturbing the surrounding area as little as possible is a part of a quality construction process. Construction activity is inevitably accompanied by noise, vibration, dust, transport and changes in traffic management, which affect the wellbeing of people living in the neighbourhood.

It is not possible to eliminate disturbing factors altogether but their impacts can be reduced by taking certain steps. Our two principal measures are giving residents advance notice and observing principles that reduce the impact and inconvenience of construction work:

- We encourage all our site managers to visit residents of the area before a project begins and inform them about the planned works. We also inform the local community about major changes during the project.
- On the sites of work commissioned by the National Road Administration, information leaflets are regularly distributed.
- To shorten the period of disturbance, we may ask the community and local authorities to permit longer workdays.
- Where possible, we schedule noisier work for times when it disturbs the local community as little as possible.

In general, we have good relations with local communities. People are accommodating and understanding, and smaller issues are resolved as they arise. The more serious problems usually result from the community's prior annoyance with the project.

As a responsible construction company, the Group strives to avoid any damage to the surrounding buildings and infrastructure. Before we start our work, we register the state of the neighbouring buildings and infrastructure by taking pictures and making videos. This allows us to identify the aspects which should be monitored to prevent possible damage during construction work. It also helps us resolve the claims submitted by owners of neighbouring properties on a fact basis and efficiently. The Group compensates the costs of rectifying the damage its construction work has caused to buildings or infrastructure.

Minor observations and less serious complaints are resolved by project managers as they arise. In 2018, people living near the Group's construction sites submitted two justified official complaints, which were related to noise and dirt. Major observations and more serious complaints are entered in the Deficiencies and Suggestions Register and responsible persons make sure that they are resolved and the parties involved receive feedback.

In 2018, we started developing the e-consignment note software. The system helps prevent the carriage of loads exceeding the permitted level that would cause excessive damage to roads. The program provides loaders, carriers and site managers with real-time information about the weight and location of loads, allowing them to check compliance with agreements.

Tariston AS has supplied the community with drinking water tanks when the extraction of underwater deposits in its quarries has caused water shortage in the wells of the neighbourhood and it has been temporarily necessary to ensure the conditions required by the local authority.

In 2018, when we were building an apartment building at Saue, there occurred an incident where rainwater flooded the basement of a neighbouring building. Even though it was not caused by our construction work, our project team came to the rescue and built a proper drainage solution for the neighbouring building free of charge.

EMPLOYEES AND PERSONNEL EXPENSES

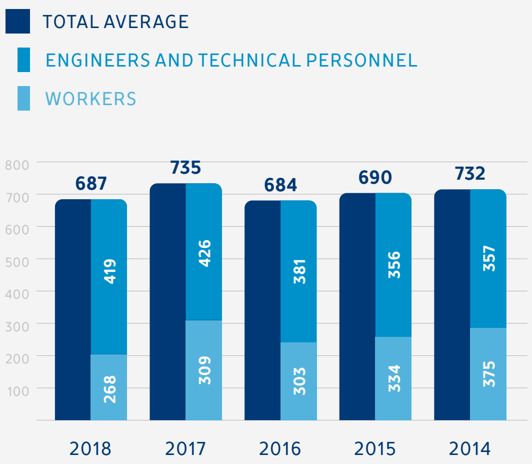
Nordecon wishes to provide its employees with a modern and professional work environment that offers opportunities for personal development, rewarding work experience and the company's business growth.

In 2018, employee-related focus areas were influenced by several internal and external factors. Similarly to the previous period, the main external factors were upward pressure on wages, which is characteristic of the entire construction sector, and stiff competition for qualified and skilled labour.

The most important internal factor was the change in leadership – the chairman of the Group's board changed and the activities of the board were reorganized, which required management of the changes and the organization's adjustment to them.

In 2018, the Group (the parent and the subsidiaries) employed, on average, 687 people including 419 engineers and technical personnel (ETP). Headcount dropped by around 7% compared to 2017. The number of workers decreased noticeably, mostly because the contract for providing national road maintenance services in Keila area expired.

AVERAGE NUMBER OF EMPLOYEES AT GROUP ENTITIES



WORKFORCE STATISTICS BASED ON THE ANNUAL AVERAGE NUMBER OF EMPLOYEES

	ETP staff		WORKERS		2018	2017
	MALE	FEMALE	MALE	FEMALE	TOTAL	TOTAL
WORKFORCE BY AGE						
Number of employees under 30 years old	75	35	46	2	158	186
Number of employees 30–49 years old	181	52	118	2	353	352
Number of employees 50 years old and over	49	21	97	9	176	197
WORKFORCE BY EMPLOYMENT RELATIONSHIP						
Share of employees with permanent contracts (% of all employees in the category)	98%	97%	94%	75%	91%	92%
Share of full-time employees (% of all employees in the category)	91%	93%	95%	83%	90%	93%
Total number of days worked by leased workers*	550		750		1,300	3,634
NEW HIRES						
Number of employees under 30 years old	16	6	66	1	89	102
Number of employees 30–49 years old	18	10	61	1	90	72
Number of employees 50 years old and over	14	1	28	1	44	28
EMPLOYEE TURNOVER						
Number of employees under 30 years old**	21	7	32	1	61	82
Number of employees 30–49 years old**	29	12	35	2	78	80
Number of employees 50 years old and over**	9	5	33	1	48	37

* Not included among employees presented on other lines ** Including those that resigned, were laid off or dismissed or retired

Despite the decline in headcount, personnel expenses grew by around 0.4% through a rise in wages and salaries. The Group's personnel expenses for 2018, including all taxes, totalled 22,964 thousand euros. In 2017, personnel expenses amounted to 22,872 thousand euros.

The service fees of the members of the council of Nordecon AS for 2018 amounted to 187 thousand euros and associated social security charges totalled 62 thousand euros (2017: 167 thousand euros and 55 thousand euros respectively).

The service fees of the members of the board of Nordecon AS amounted to 656 thousand euros and associated social security charges totalled 217 thousand euros (2017: 1,001 thousand euros and 330 thousand euros respectively). The figures include termination benefits of 180 thousand euros paid to a member of the board and associated social security charges of 60 thousand euros. In 2017, board members' service fees included termination benefits of 550 thousand euros paid to two members of the board and associated social security charges of 182 thousand euros.

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:

	2018	2017	2016	2015	2014
NOMINAL LABOUR PRODUCTIVITY*, (EUR '000)	325.4	314.9	268.0	210.9	220.4
Change against the comparative period, %	3.3%	17.6%	27%	-4.3%	-4.0%
NOMINAL LABOUR COST EFFICIENCY, (EUR)**	9.7	10.1	9.0	8.0	8.0
Change against the comparative period, %	-3.8%	12.6%	12.8%	-0.6%	-4.8%

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

The Group's nominal labour productivity increased compared to 2017 through a decrease in headcount. Labour cost efficiency declined, mainly due to lower revenue.

FUTURE EMPLOYEES AND EMPLOYER REPUTATION

The availability of qualified labour is critical for the implementation of the Group's strategy, which is why retaining existing employees, developing new talent and finding new employees were among the key topics in 2018. The main focus was on cooperation projects with young engineering students through higher education institutions and promoting engineering in society as a whole. In addition to recruiting qualified project and site managers from outside the Group, we invest in providing relevant training in-house.

In an attractive employers survey conducted by Instar EBC among the students of higher and vocational education institutions in 2018, engineering students elected Nordecon AS the fifth most attractive employer (2017: the second place).

In 2018, the Group's parent continued to work closely with Tallinn University of Technology (TalTech) and Tallinn University of Applied Sciences, where we find most of our young hires. For years, the Group has supported young engineers' competitions and awarded scholarships to the best students. In addition, our employees deliver lectures to engineering students and every year we participate in the career fair "Key to the Future".

These activities make the Group visible to technology and engineering students and help find interns for the summer as well as new talent for our construction sites and units involved in pre-construction activities. In 2018, we provided internship opportunities to a total of 26 (2017: 34) students from TalTech, Tallinn University of Applied Sciences, Järva County Vocational Training Center, the Estonian University of Life Sciences and Tallinn Construction School.

Further information on cooperation projects of 2018 is provided in the chapter *Giving back to society.*

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 2018, invitations to participate in an employee engagement survey were sent to 347 employees from five Group entities (Nordecon AS, Nordecon Betoon OÜ, Eston Ehitus AS, Tariston AS and SWENCN OÜ). 81% of them (284 employees) completed the survey (2017: 81%) which is an exceptionally high participation rate and reflects our employees' interest in the Group's development and their willingness to contribute to it.

The Group's employee engagement index declined somewhat compared to 2017. In 2018, our overall employee engagement index was 61 (2017: 65). The result is at the same level as the average TRI*M Index for the Estonian agriculture, manufacturing or construction sectors (2018: 61).

The employee engagement index continues to be the highest at Nordecon Betoon OÜ. At the Group's parent and Tariston AS the index dropped significantly. This is mainly due to changes in the entities' management in 2018. Overall satisfaction among project and site managers improved considerably.

On average, three out of five employees would recommend Nordecon Group as an employer. Employees are most satisfied with professional development and training opportunities. The biggest challenges lie in improving teamwork and strengthening motivation systems.

In 2018, we made changes to our employees' remuneration and benefits systems. From 2019, most Group entities pay employees sickness benefits starting from the second day (earlier from the fourth day). From 2019, employees of the Group's parent are entitled to additional annual leave for length of service starting from their second year of employment (earlier from the fifth year). Group entities allow their employees to take personal days, pay benefits related to personal life events and support their participation in sports in the amount allowed by law (100 euros per employee per quarter) via the SportID environment. The Group's employees are active volleyball, football and disc golf players and participate in competitions organized by the Estonian Company Sports Association as well as in the running event Maijooks and Tallinn Marathon.

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.

Nordecon AS and the subsidiary Tariston AS grant paid leave to employees who have to attend the Defence Forces' reservist training exercises.

In February, we have our traditional Winter Seminar where we review prior year performance, results, accomplishments and challenges and discuss future plans. Every year, the event brings together around 250 employees from across the Group.

EMPLOYEE DEVELOPMENT AND BUILDING MANAGEMENT AND LEADERSHIP COMPETENCIES

Employees' professional development plays an important role in employee engagement as well as the success of the company. In 2018, we focused on building general management and leadership capabilities, acquiring professional certificates and re-certification. On the one hand, the Group as a strong and well-established construction company regards investment in management and leadership competencies as an opportunity to maintain and increase employee satisfaction through smooth organization of everyday work and to stand out as a good employer. On the other hand, we also see it as an opportunity to successfully meet management and leadership challenges and improve our change management capabilities.

Other focus areas were the continuing professional development of employees and the re-certification of professional qualifications. Customers' expectations and demands for employee professionalism are increasing as are the statutory education requirements for people working in the construction sector. Moreover, professional certificates (particularly those held by project and site managers) are an important prerequisite for participating in public procurement tenders.

In 2018, a key development activity at the Group's parent was the launch of a development programme for all managers involved in people management, which was attended by 23 managers. The aim of the monthly training sessions was to create a common understanding of the Group's management and prepare the participants for meeting new management and leadership challenges and managing change. The programme addressed topics such as time management, becoming the leader, changing behaviour and argumentation.

In 2018, 10 of our 13 board members participated in various management and leadership training courses.

At the end of 2018, all of the Group's key personnel had professional certificates. Several of our employees hold more than one professional certificate. In 2018, training received by our ETP staff grew to 35.5 hours per person on average (2017: 24 hours) while training received by workers remained stable at 2.3 hours (2017: 2.5 hours).

Also, we focused on reviewing the need for human resources, i.e. job enlargement and thereby enabling employees to gain more experience, and stepping up cooperation within the Group and with the representatives of business partners, owners' engineers and customers. A performance audit and a social network and reliability analysis were carried out in the organization, the findings of which were used in managing several changes.

In 2018, we continued active collaboration with universities in order to support the development of our staff. For example, in partnership with TalTech we 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.

We conduct regular annual performance interviews with our people to identify their development needs and include them in their development process. During the interviews, we determine employees' training needs, make certification plans, and receive valuable feedback about the company and its management. In 2018, performance interviews were conducted with 48% of ETP personnel and 64% of workers.

DIVERSITY AND EQUAL OPPORTUNITIES

The Group respects human rights and relevant policies are set out in Group entities' internal rules and regulations. We see diversity as an asset.

In 2018, women and men accounted for 17% and 83% of the Group's personnel (2017: 17% and 83%) respectively and represented 13% and 87% of Group entities' board members (2017: 13% and 87%) respectively. In terms of age groups, people under 30 accounted for 23% (2017: 25%), people 30–49 years old for 51% (2017: 48%) and people 50 and over for 26% (2017: 27%) of the workforce.

Workforce diversity and its management are part of contemporary management culture. We employ people of different ages, genders and ethnicities as well as people with special needs.

- We have created a working environment which is 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 appreciate diversity of opinions and everyone's right to have their own point of view.

In 2018, there were no reported incidents of employee discrimination or violation of human rights at the Group.

OCCUPATIONAL HEALTH AND SAFETY

Construction is one of the most work accident-prone sectors, which is why the employer, the employee, the business partner and the customer expect construction sites to be safe and tidy. Ensuring a safe working environment with properly controlled health risks for both our own employees and those of our partners is one of the Group's most significant responsibilities.

We deal with the occupational health and safety topic systemically, keeping it under constant scrutiny. A safe working environment assumes the unrelenting commitment of all stakeholders.

The Group observes all applicable laws and regulations, has appointed people responsible for relevant areas, has established procedures for emergency situations, conducts risk analyses, carries out health checks, trains and informs employees, prepares relevant action plans for its construction sites, supplies everyone with proper work and personal protection equipment, and analyses risk situations and accidents at work to prevent their recurrence.

The Group's parent has set up a work environment council and elected work environment representatives who, in cooperation with the employer, resolve employees' occupational health and safety issues.

In 2018, we transferred the administration of our occupational safety review documents to the Bauhub system. This has made registering and managing instructions and the details of threats and incidents easier and we can obtain more accurate overview whenever necessary.

The Group has set up a training programme for its site safety coordinators. By focusing more on Group-specific issues, the internal programme provides greater value than attendance in public training events.

The Group's parent and subsidiary Nordecon Betoon OÜ follow the requirements of international occupational health and safety management standard OHSAS 18001.

Higher-risk works at Group entities include supporting structure, roof, façade, digging/earth-moving and assembly works. Occupational health and safety management 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.

WORK SAFETY STATISTICS

	2018		2017	
	GROUP'S EMPLOYEES	SUBCONTRACTORS	GROUP'S EMPLOYEES	SUBCONTRACTORS
Work safety incidents	2	18	2	16
Minor accidents at work	8	6	9	3
Serious accidents at work	1	2	2	3
Fatal accidents at work	0	0	0	0

In 2018, the total number of sick leave days taken across the Group was 2,467 (2017: 2,564), i.e. 3.6 (2017: 3.5) sick leave days per employee on average.

Nordecon AS has implemented an application created in Bauhub, which allows its specialists to perform site safety inspections with a smart device and immediately register shortcomings and forward findings to the parties involved. It is a tool that simplifies safety assurance and improves the quality of the outcome.

The subsidiary Nordecon Betoon OÜ has implemented a safety index, which is 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 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 a clear 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 Sweden or have not received work and environmental safety instruction.

In September 2018, the Group delivered the Metsä Wood plywood mill in Pärnu. The construction of a production building of 29,000 square metres, which is large by Estonian standards, was interesting due to its technological features: in the fully digital production complex, equipment installation and operation were crucial factors. The project also stood out among others due to the customer's keen interest in the observance of safety procedures.

SUPPLIERS AND SUBCONTRACTORS

Smooth and high-quality execution of construction projects largely depends on the partners involved in the process – material and product suppliers and subcontractors. As a rule, in an average-sized construction project we have over fifty partners. Accordingly, it is essential that they should be recognised operators in their field, meet the expectations of the customer and the Group, and observe set requirements.

In 2018, the Group focused on enhancing cooperation with suppliers and subcontractors. It is important to understand that they are our partners, not simply hired contractors. Working towards a common goal, communicating honestly and transparently, identifying and handling problems early, respecting one another and honouring agreements – all this helps build trust, which enables us to address the key aspects and challenges of the project and, through joint efforts, achieve the best result.

> For years, we have recognised our business partners by thanking them in the year-end issue of the business paper *Äripäev.*

Retaining good business partners is important for the Group. On the one hand, we strive to create a collaborative atmosphere and support our partners in their work. On the other hand, we try to build more permanent relations. By sharing information across the Group, we try to find more work for our partners so that the same counterparty could be involved in several successive projects.

> In late 2018, we began implementing a new information system for transparent management of partner-related information and more efficient organization of procurements. The procurement environment is a database that pools Group-wide information about partners, including the collaboration history and assessments of cooperation in prior projects. The daily updated system enables us to carry out procurements more easily, agree fair terms based on comprehensive information and evaluate the partner when the project ends.

In selecting partners, we review their background, track record, financial position and ability to provide the required resources. 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 requirements by assessing the technical solution, quality, performance capabilities and cost competitiveness.

Selection of building materials. The Group is responsible for the quality of materials used on its construction sites. Professional and timely procurement is ensured by the purchasing department, which coordinates the purchase of products and materials.

Although the main building materials are specified in the project design, in certain areas we can offer customers alternative, better and more efficient solutions based on our experience and expertise. As a rule, building materials and products have to meet stringent requirements. Also, we continuously check materials and products before they are used in order to avoid subsequent risks.

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

Subcontractors. In its capacity as a general contractor, the Group uses the services of many subcontractors as well as lease of labour. It is important for the Group to work with honest, law-abiding and capable partners. We do not cooperate with partners who have been known to engage in dishonest business practices.

With 97% of our subcontractors we have signed agreements on complying with occupational health and safety and environmental criteria, which set out the obligations of both parties in ensuring work, fire, electrical and environmental safety.

In 2018, we decided to end cooperation with a subcontractor because we discovered that they had breached occupational safety and other agreements. In the case of other subcontractors we did not detect any breaches, risks or negative impacts on occupational health and safety or environmental aspects that would have resulted in an accident, termination of cooperation or a formal decision to avoid cooperation in the future.

Appraisal of partners. In construction activity, we apply the policy that when work or an order has been completed, the project manager must appraise each supplier and subcontractor.

Nordecon AS evaluates its subcontractors at the end of each project in a billing environment which is also used to obtain data for the procurement environment. The evaluation criteria comprise: time, quality, collaboration, team, documentation and an overall assessment.

At other units (e.g. the asphalt production and mining and quarrying units) subcontractors are appraised once a year. The following aspects are evaluated:

- existence of the permits, registrations and resources required for doing the work;
- observance of deadlines and agreements;
- cooperativeness and flexibility;
- compliance of the work, product or service with the quality criteria;
- environmental sustainability of the work, product or service;
- adherence to occupational health and safety requirements.

ENVIRONMENTAL IMPACTS

MANAGEMENT OF THE ENVIRONMENTAL IMPACTS OF CONSTRUCTION ACTIVITIES

The environmental aspects of construction activity are under closer scrutiny primarily due to regulatory changes. The European Union's environmental policy has put the topics of energy efficiency and waste into the spotlight both in the home and foreign markets. We feel the impact of stricter environmental requirements mainly through the increasing expectations of our customers.

Although environmental developments have the strongest impact on the planning and design phase, we strive to ensure that our teams are prepared to implement new solutions throughout the construction process. Environmentally friendly and sustainable solutions must be sought in both our own and business partners' techniques and methods that are economically reasonable.

The performance of a growing number of eco-friendly projects increases the environmental awareness and skills of all counterparties.

The most significant environmental aspects of the Group's activities are:

- the materials used and the waste produced during the construction process;
- the risk of possible pollution of soil, wildlife, vegetation, water bodies and groundwater;
- greenhouse gas emissions resulting from asphalt production.

The Group's goal is to avoid risks and negative environmental impacts in those aspects and to keep the surrounding environment clean. We manage the environmental aspects of our activities by:

- identifying and regularly assessing our main environmental impacts and maintaining a relevant register;
- following site- and location-specific action plans;
- complying with applicable laws and regulations and customers' additional requirements;
- applying international environmental management standard ISO 14001 at the Group's larger construction companies (Nordecon AS, Eston Ehitus AS, Tariston AS, Nordecon Betoon OÜ, Eurocon Ukraine TOV);
- using suitable methods, technologies, machinery and materials;
- measuring and metering, and submitting environmental reports.

In 2018, the Group did not receive any written orders or penalties from supervision authorities for breach of environmental requirements.

MATERIALS AND WASTE HANDLING

The materials to be used in a construction project and their quantities are generally specified in the design documentation. Nevertheless, before work begins, our designers work with the customer to find more efficient solutions for lowering materials consumption and costs. Efficient use of materials is supported by centralised purchases by the Group's purchasing department.

In quantitative terms, the building materials that our companies use the most include concrete, aggregate (crushed stone, gravel and sand), steel, and bitumen-based asphalt mixes. The use of reinforced concrete elements, glass façade solutions, and closures for openings (doors and windows) is also substantial.

In road construction, which is material intensive, we see opportunities for implementing eco-friendly solutions by reusing materials and reducing waste:

- Where subsoil is unsuitable for road construction, it can be stabilised and strengthened by adding binders, which makes it suitable for road construction and reduces the need for excavating new soil. In the period 2010-2016 Nordecon AS participated in a relevant pilot project, OSAMAT, which was carried out with Eesti Energia AS and the National Road Administration.
- A good example of material reuse is the use of asphalt millings (derived from the removal of old asphalt) as the base material for the asphalt layer of a new road or in surface dressing where it is of great help in making Estonian roads dust-free. The Group uses 100% of asphalt millings resulting from the removal of old pavements in the construction of new roads. Residual excavated soil that is unsuitable for construction purposes is generally used in building roadside noise barriers.
- In 2018, the Group's subsidiary Tariston AS implemented Estonia's first mobile washing plant for bulk materials. It allows improving the quality of otherwise unsuitable soil in quarries across Estonia by washing out clay and fine particles so that the soil can be used in road construction. It helps us reduce the deficit of materials whose filterability is suitable for road construction and use millions of cubic meters of soil which otherwise would have remained unused.
- In 2018, the Group's parent began using a filler silo that allows recycling residual dust which is a by-product of asphalt production and using it in the production of new asphalt mixes. This has reduced the quantity of waste dust subject to disposal, which used to amount to 3,000 tonnes per year, more than 10 times.

In general, road construction generates large quantities of waste which can be reduced by more effective design, procurement and work arrangement. We organize waste handling and management in accordance with national and local laws and regulations. The Group's activities mainly result in the following types of waste: waste stone, soil, concrete and bituminous mixes, mineral waste and mixed construction and demolition waste (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 soil is handed over to appropriately licensed waste handlers.

In 2018, we focused more on waste sorting and recycling:

- Tallinn City Government has adopted a stricter approach to waste sorting on construction sites. The general contractor has to collect paper and cardboard, packages and film, plaster, metal, wood, mixed, municipal and hazardous waste separately. We made the separate collection of the above waste possible on several major construction sites in Tallinn.
- Public and more frequent discussion of the topics of waste handling and circular economy has helped us see more opportunities and benefits in it. Sorting reduces waste, which lowers the costs of waste handling: interested parties buy or remove free of charge many sorted waste materials and some waste is recycled and reused in the production of new materials.

In December 2018, the Group's subsidiary Nordecon Betoon OÜ completed a 14-floor commercial and residential building in the forward-looking hybrid WoHo quarter in Tallinn. The quarter aims to combine eco-friendly buildings of spectacular design and well-planned concepts and the surrounding green space into a unique whole. The anchor tenant of the new building is the world-conquering Estonian IT company Pipedrive.

PROTECTION OF SOIL AND BIODIVERSITY

The Group's possible wildlife, soil and water body pollution risks result mainly from road construction and the operation of asphalt plants and quarries. The risk of oil, fuel and wastewater leakage is smaller.

To avoid environmental pollution we make sure that our employees are aware of environmental protection requirements, the machinery and equipment we use is in good working order and we apply appropriate techniques and methods. We have put in place action plans and measures for managing hazardous incidents. During construction operations we avoid unnecessary damage to vegetation and protect plants.

In carrying out asphalt paving works, we take care to avoid bitumen emulsion leakages and spills both during delivery and the paving process. Group entities may not mix contaminated soil with waste material or reuse it. Contaminated soil is recycled or removed in accordance with applicable requirements.

In 2018, Group entities did not cause any environmental pollution.

In 2018, the Group operated the Kohtla-Järve wastewater treatment plant, built in 2017 by the Group's parent, during its post-completion monitoring period. The plant, which also receives leachate from oil shale ash storage sites, is a facility with high environmental risk and our largest environmental project in recent years.

The Group's subsidiary Tariston AS is one of the main partners of the State Forest Management Centre in carrying out draining and building logging roads in state forests. Although the State Forest Management Centre handles the logging, Tariston too is responsible for making sure that its work does not damage the environment.

ENERGY CONSUMPTION AND EMISSIONS

The Group's largest energy consumers are asphalt plants and quarries, and, to a lesser extent, temporary heating of buildings during construction work.

To achieve energy savings in building construction, we are increasingly trying to replace temporary heating solutions with stationary systems designed for completed buildings. We also prefer energy and fuel efficient construction machinery and equipment and company cars.

Although the three asphalt plants that we use operate on sustainable modern technology (fuel oils have been replaced with electricity and partial transition to liquid gas is being planned), they are the sources of our largest environmental impacts.

The emissions of Group's asphalt plants are measured as required by the terms and conditions of the air pollution permit and regular reports are submitted to the Environmental Board. In 2018, permitted quantities of pollutants were not exceeded. When the quantities permitted by the air pollution permit have been minimally exceeded during production, the Group has paid additional environmental charges. In 2018, our asphalt plants emitted a total of 4,827 tonnes (2017: 4,996 tonnes) of carbon dioxide.

The Group's main energy saving opportunities lie in the operation of the asphalt plants. In 2018, we made a significant change to the energy supply of a mobile asphalt plant. Previously, one of the plants used a large electric generator only. Among other things, it was used to operate small equipment at the time when the plant was not producing asphalt. As a result of the upgrade, only a small generator is used when the plant is not working to avoid overproduction of energy.

In 2018, our asphalt plants and quarries consumed a total of 1,305 MWh (2017: 1,300 MWh) of electricity and 1,456 thousand litres of different fuels. Group entities do not measure the energy consumption of other activities on a uniform basis.

ENVIRONMENTAL IMPACTS OF COMPLETED BUILDINGS

Although environmentally sustainable construction is still more of an exception, its importance as a market segment is gradually increasing. Above all, the trend is supported by the prioritisation of energy efficiency in Europe and, to a lesser extent, the development of materials reuse and circular economy requirements.

There is clear demand for energy efficient and environmentally friendly solutions in office building and commercial real estate projects where lower operating costs have become an important argument besides environmental sustainability. In residential real estate projects, expectations for environmentally friendly solutions are gradually increasing.

Laws and regulations 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).

We have decided to improve our capacity to implement more sustainable processes and build environmentally friendly buildings in line with the growing expectations of our customers.

In 2018, Group entities delivered 6 buildings that meet higher than usual environmental standards (e.g. the LEED standard, the passive house standard, energy classes A and B): office buildings in Tallinn (Lõõtsa 12, Ülemiste City) and Kiev (UNIT. City Innovation Park) that have LEED Platinum and Gold certification, and two Meerhof 2.0 apartment buildings (Pirita tee 20a, Tallinn), the Kristiine Majad apartment building (Sõjakooli 12, Tallinn), and the Väsby Terrass apartment building built by SWENCN AB (Trädgårdsvägen, Sweden) that have energy class B.

At the end of 2018, we started building energy class A apartment buildings in Kuuseheki street at Saue. The label means that the buildings are of good quality and energy efficient. The building envelope has higher thermal resistance requirements, and the buildings will have solar panels and charging points for electric vehicles.

The experience we have gained provides an edge in bidding for the construction of buildings pursuing the LEED or other environmental certificates in both the Estonian and the Nordic market.

The Group's subsidiary Eurocon Ukraine TOV participated in a project in the framework of which a 7-floor office building was reconstructed in an environmentally friendly manner. It is part of Ukraine's first 25-hectare UNIT City Innovation Park which was inspired by the Google and Apple campuses in Silicon Valley. The building, which was built according to the LEED Gold standard, meets the requirements of environmental friendliness, energy efficiency and good indoor climate.

In 2018, we completed the 13-floor Alexandre Liwentaal office building at Lõõtsa 12 in Ülemiste City in Tallinn. The green building was built according to the requirements of the LEED Platinum standard. This means that the construction process was environmentally friendly, the building is a good fit for the surrounding ecosystem and public space, green materials were used, energy and water systems are efficient and the building has good indoor climate.

The Group's task was to provide environmentally friendly solutions such as preparedness for maximum use of green energy, environment friendly heating, use of sanitary equipment of the highest efficiency, precise metering of daily resource consumption, waste sorting and good ventilation.

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

"Technopolis Group has chosen 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 standard 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

Being a large construction company, the Group has significant influence on local communities and society as a whole.

The Group's strongest social impact results from well-planned and safe construction processes and quality end-results. However, the Group can improve general welfare by sharing the knowledge and experience of its people and raising topics that require the attention of society. Thus, the Group is an active partner for professional associations in the construction industry, universities and occupational qualification authorities as well as a permanent sponsor of various cooperation projects.

WE CONTRIBUTE TO THE DEVELOPMENT OF A MORE SUSTAINABLE CONSTRUCTION SECTOR

Our representatives participate actively in the work of professional and business organizations and share their knowledge at public events (seminars, conferences, meetings) and universities. We use these channels to voice our opinion, make proposals for drafting and amending laws and regulations, arrange cooperation projects, exchange information and thus contribute to the development of the construction industry. The knowledge and experience gained is shared within the Group and applied in our daily management activities.

Group companies belong to the following organizations:

- 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)
- Digital Construction Cluster operating under the Ministry of Economic Affairs and Communications

WE PROMOTE ENGINEERING

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. We participate in career fairs and offer internship opportunities to students. In line with the policy, in 2018 we continued our long-term cooperation with TalTech. The main projects carried out in 2018 were as follows:

- The Group finances the Nordecon Heinrich Laul scholarship, which is awarded to a young (up to a 40-year-old) faculty member or researcher working at TalTech 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.

> In 2018, the Nordecon Heinrich Laul scholarship for a young faculty member or researcher was awarded to Martin Thalfeldt and Nordecon's scholarship for a graduate engineering student was awarded to Martin Talvik.
>
> *"It's a smart move for Nordecon to think about the future and contribute to the training of future engineers. The benefit is that it makes young people feel that employers appreciate their educational efforts. For me personally it's something that motivates me to study every evening after work to keep my academic progress on track."*
>
> ***Martin Talvik***
> *Head of Operations at Nordecon and 4th year Building Design and Construction Management student at TalTech*

- In 2018, we supported **Enginaator**, an engineering competition organized by TalTech's student organization BEST-Estonia, which attracted 200 students from all over the country. During the competition, student teams could solve engineering problems in the field of construction, IT and science.

> *"Nordecon provided Enginaator with a construction problem to be solved by young engineers. Cooperation was excellent. Although it was a busy time for Nordecon they put together a team of professionals that developed a task for the engineering competition. Moreover, Nordecon's representatives were present at Enginaator where they helped present the task and inspired the participants with their exciting stories."*
>
> **Mihkel Sari**
> *Project Manager of the engineering competition Enginaator*

- The Group supported BUILD IT 2018, a conference, fair and competition arranged by TalTech civil engineering department, which on this occasion focused on modular housing and automated solutions.
- Nordecon AS sponsored the conference BIMsummit Estonia. BIMsummit is the biggest BIM and digital construction event in Estonia which aims to inspire practitioners through the experience of other practitioners and discussion groups.

In 2018, we also continued to support Järveküla School in promoting sciences, technology, engineering, and mathematics among middle school pupils and sponsored the Engineering Day of Tallinn University of Applied Sciences.

WE SUPPORT THE DEVELOPMENT OF YOUNG PEOPLE THROUGH EDUCATION AND SPORTS

Group entities believe in the development of young people's willpower through sport. To this end, we have set up cooperation projects with several young athletes and sports clubs. In 2018, we continued to sponsor:

- Sports Club Duo, TalTech Sports Club and TalTech's basketball team
- Sailing athlete Karl-Martin Rammo. The main purpose is to help the gifted athlete achieve the best possible results and thereby inspire other young people to go in for sports and set ambitious goals.

In 2018, we began to support speed skater Saskia Alusalu.

In 2018, Toyota relocated its service base for rally cars participating in the World Rally Championship to Peetri, on the outskirts of Tallinn. The workshop operating under the name of Toyota Gazoo Racing, commissioned by Tommi Mäkinen Racing, was built by the Group's subsidiary Nordecon Betoon OÜ.

We also support culture and other areas encouraging social activity. In 2018, we sponsored:

- Tallinn City Theatre
- Ugala Theatre
- Nõmme Private Education Foundation
- The farewell competition of the world and Olympic champion discus thrower Gerd Kanter
- 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)
- Foundation Carolin Illenzeer Fund (the aim of the foundation is to support the children of Estonian servicemen who have been killed or severely injured in the line of duty)

In 2018, the Group's donations and support payments totalled 298 thousand euros (2017: 300 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 30 years. Besides construction companies, he has held senior positions at various other enterprises (Tallinna Kaubamaja Grupp AS, AS E-Betoonelement, OÜ Väokivi, Eesti Energia AS, etc.). He is an active member of the community and has contributed to the development of the business environment, education and national defence. For over 23 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 lieutenant colonel 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 organizations. 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 organizations:
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, Estonian Shooting Sport Federation (vice-president), 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. Andri Hõbemägi has been a member of the audit committee of Nordecon AS since 2010.

Membership in the governing bodies of other organizations:
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 organizations:
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. Sandor Liive has been a member of the audit committee of Nordecon AS since 2015.

Membership in the governing bodies of other organizations:
OÜ Gridio (board), OÜ Inventor (board), OÜ FinEst Bay Area (board), PARKI Teadus- ja Tööstuspark OÜ (council), commercial association Tuleva (council), Fermi Energia OÜ (council), Gridio 2.0 OÜ (board)

Interests (exceeding 5%) in other companies:
OÜ Gridio, OÜ Inventor, OÜ Callisto Group, OÜ FinEst Bay Area, Fermi Energia OÜ, Gridio 2.0 OÜ

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 Tallinn Stock Exchange, and a member of the council of Tallinna Kaubamaja Grupp AS, also listed on the Nasdaq Tallinn Stock Exchange. Meelis Milder is a visiting lecturer on the courses of Strategic Management and Organizational 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), the Order of the Estonian Olympic Committee and the Order of Merit of the Ministry of Foreign Affairs. He is an honorary member of the Estonian Academy of Arts.

Membership in the governing bodies of other organizations:
Tallinna Kaubamaja Grupp AS (council), AS Baltika and its subsidiaries and associates (board/council), BML Invest OÜ (board), OÜ Kodreste (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.

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 EVRY 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 organizations:
Estonian Association of Construction Entrepreneurs (board), 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 an MSc cum laude degree in industrial and civil engineering and completed the EMBA programme of Aalto University in 2018. Priit Luman holds the qualification of Chartered Civil Engineer, level 7, awarded by the Estonian Association of Civil Engineers.

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

Interests (over 5%) in other companies:
none

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 organizations:
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 AS Nordic Contractors. 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 organizations:
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

Honest, transparent and ethical conduct and compliance with effective laws and regulations are embedded in the Group's organizational culture. The Group has zero tolerance for conflicts of interest, corrupt behaviour and dishonest competition and this is clearly communicated to both employees and external stakeholders.

Openness and reliability are the Group's values.

OPENNESS

We act openly and transparently. We observe best practice in the construction industry and uphold and promote it in society as a whole.

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.

Transparency begins from an organization's internal culture and work arrangement. In 2018, we took vigorous steps to facilitate open and clear communication in and between our teams and units. Wider implementation of the Bauhub information system has made information, experience and knowledge sharing, carrying out procurements and managing construction-related documentation more accurate, systematic and easier.

Transparency and integrity. As a listed company, the Group takes particular care to observe the principles of transparency and management quality. To maintain the reputation of a reliable company among customers and business partners, it is important for us to communicate openly and honestly with all stakeholders. Good reputation is especially important in gaining customers' trust in foreign markets. Value-based management and decision-making helps mitigate risks and is the foundation for profitable business.

Honest business activity and responsible tax behaviour are important for the development of the entire construction sector. By upholding those principles, we support and promote fair competition in the construction market.

As a member of the Estonian Association of Construction Entrepreneurs, the Group supports the idea that Estonian construction sites should have a mandatory electronic employee registration system similar to the one used in the Nordic countries. This would allow proving and checking the presence of only lawfully registered employees on the construction site at any time as well as reducing dishonest behaviour in the market.

Anti-corruption activities. 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 as well as the construction sector as a whole.

In our relations with 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 thus gaining an unfair advantage.

In 2018, the Group did not provide financial support to any political party.

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

All employees are familiarised with Nordecon's internal rules and regulations which include expectations for their daily behaviour and state that the Group does not tolerate fraud or other unethical behaviour which damages its reputation or causes 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.

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 govern the handling and disclosure of inside information and performance of 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 Group's insider list for some other reason have to confirm their compliance with the rules with their signature.

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

Communication. Our communication with customers is personal. We use public communication channels (media, websites, social media, etc.) 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. We consider internal communication equally important, subject to the requirements applicable to listed companies.

Complaints. Our intranet includes an anonymous channel that our people can use to report concerns about corruption, breaches of honest and ethical business practices as well as unfair treatment. The anonymous 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.

Control. The transparency and compliance of the Group's activities is regularly checked by 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 provides authorities with access to its subcontractors and their employees but is not accountable for their legal and regulatory compliance.

Breaches. At the date of release of this report, the Group's management is not aware of any incidents of corruption in 2018, including incidents involving its employees or incidents involving its subcontractors, customers or other partners that would have required a response from the Group. In 2018, our hotline did not receive any complaints about corruption, unethical or unfair behaviour or non-compliance with laws or regulations that would have required investigation.

In 2018, no Group entities were found guilty of serious breaches of laws or regulations. The only findings (11 in total) were communicated by the Labour Inspectorate and concerned work safety deficiencies identified during inspections. The National Road Administration sent us two penalty charge notices for exceeding the permitted weight limits of trucks. The fines were settled by the subcontractors responsible for the incidents.

CORPORATE GOVERNANCE REPORT

Nordecon AS has observed the Corporate Governance Code (CGC) promulgated by the Nasdaq Tallinn Stock Exchange since the flotation of its shares on the Nasdaq Tallinn Stock Exchange on 18 May 2006. This report provides an overview of the governance of Nordecon AS in 2018 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 2018, 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 2018, shareholders did not ask any questions about the agenda items before the annual 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 2018, the company was represented by two members of the board who attended the meeting and were available to shareholders during the meeting. Chairman of the board, Gerd Müller, gave a presentation on the company's financial performance and answered shareholders' questions.

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

In 2018, 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 23 May 2018. The meeting was held in the Conference Centre of the Radisson Blu Hotel Olümpia in Tallinn and it started at 10.00 am. The meeting was called by the board of Nordecon AS.

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

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

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

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

Information published in respect of a candidate for a member of the council includes information about 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 2018, 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 2018, the annual general meeting was attended by chairman of the board Gerd Müller, member of the board Maret Tambek, 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 2018, 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. Members of the board Priit Luman and Ando Voogma and the auditor of Nordecon AS did not attend the annual 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 the 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 2018, 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 2018, 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 2018, the board had the following members:

NAME	POSITION/AREA OF RESPONSIBILITY	BEGINNING OF TERM OF OFFICE	END OF TERM OF OFFICE
Gerd Müller	**Chairman of the Board,** General management of Nordecon AS and the Group	8 January 2018	6 January 2021
Priit Luman	**Member of the Board,** Management of the Group's foreign operations	1 May 2017	30 April 2020
Maret Tambek	**Member of the Board,** Management of the financial and support services functions of Nordecon AS	1 May 2017	30 April 2020
Ando Voogma	**Member of the Board,** Management of the sales and pre-construction operations of Nordecon AS	1 August 2017	31 July 2020
Erkki Suurorg	**Member of the Board,** Management of the construction operations of Nordecon AS	5 August 2002	31 March 2018

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 (see also note 35):

- 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 up to six-fold and for the chairman of the board up to 12-fold average monthly service fee together with performance-related pay).

  The 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 up to six-fold and for the chairman of the board up to 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.

The annual general meeting which convened in 2018 amended the share option plan for members of the board. In the framework of the share option plan, the chairman of the board may acquire up to 200,000 shares and each member of the board may acquire up to 129,500 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 2020 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 2020 (from 6,083 thousand euros to 12,167 thousand euros).

In 2018, the service fees of the members of the board of Nordecon AS amounted to 656 thousand euros and associated social security charges totalled 217 thousand euros (2017: 1,001 thousand euros and 330 thousand euros respectively).

In 2018, 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 accept cash 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 2018, 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 organized 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, organizes 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 2018, the council had five meetings: two were attended by 100% and three by 80% of the council members. In addition, six times resolutions were adopted electronically; in those cases all council members participated.

In 2018, 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 2018, 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 2023
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 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 2018, the service fees of the members of the council of Nordecon AS amounted to 187 thousand euros and associated social security charges totalled 62 thousand euros (2017: 167 thousand euros and 55 thousand euros respectively).

In 2018, 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 2018, 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 2018, the board and the council worked closely in monitoring the implementation of the company's development plan and the achievement of the company's strategic objectives. In 2018, the council approved the company's renewed strategy for 2019–2022. 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 2018, 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 to 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 2018, 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 Tallinn Stock Exchange and the company's website www.nordecon.com. In those channels, information is released simultaneously in Estonian and in English.

The company discloses information in accordance with the rules of the Nasdaq Tallinn Stock Exchange and the provisions of the Estonian Securities Act. In 2018, the company's threshold for notifying of significant construction contracts was 3.2 million euros. In 2018, Nordecon AS made 33 stock exchange announcements that were released concurrently via the information system of the Nasdaq 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 organized 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 2018, 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 organized 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

The 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 37).

In 2018, 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 the 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 2018 we purchased from the audit firm tax and legal advice, training and financial statement translation services. Altogether, in 2018 the fees Nordecon AS paid to the audit firm totalled 52 thousand euros.

The auditor provided the audit committee formed by the council with a written memorandum on the company's audit of 2018, the auditor's findings and other significant matters that were discussed with the board.

In 2018, Nordecon AS complied with the subsections of section 6.2 of CGC that relate to auditing.

SHARE AND SHAREHOLDERS

SHARE INFORMATION

Name of security	Nordecon AS ordinary share
Issuer	Nordecon AS
ISIN code	EE3100039496
Ticker symbol	NCN1T
Nominal value	No par value*
Total number of securities issued	32,375,483
Number of listed securities	32,375,483
Listing date	18 May 2006
Market	Nasdaq Tallinn, Baltic Main List
Industry	Construction and engineering
Indexes	OMX Baltic Industrials GI; OMX Baltic Industrials PI; OMX Baltic Construction & Materials GI; OMX Baltic Construction & Materials PI; OMX_Baltic_GI; OMX_Baltic_PI; OMX Tallinn_GI

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

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

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

REDUCTION OF SHARE CAPITAL

On 23 May 2018 the annual general meeting of Nordecon AS adopted a resolution on the reduction of the company's share capital and on 14 September 2018 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 1,942,528.98 euros, from 18,263,543.68 euros to 16,321,014.70 euros. Share capital was reduced by reducing the book value of the shares by 0.06 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 16,321,014.70 euros, consisting of 32,375,483 shares with no par value.

The reduction of share capital by 0.06 euros per share was paid out to shareholders on 18 December 2018. No payments were made to Nordecon AS for own shares held by the company.

SUMMARISED TRADING RESULTS

SHARE TRADING HISTORY

PRICE (EUR)	2018	2017	2016	2015	2014
OPEN	1.25	1.34	1.03	1.02	1.05
High	1.29	1.46	1.35	1.14	1.09
Average	1.10	1.30	1.14	1.05	1.02
LOW	0.89	1.20	0.98	0.98	0.93
Last closing price	0.89	1.23	1.33	1.05	1.06
Traded volume (number of securities traded)	1,707,399	1,977,849	1,162,430	1,656,376	1,799,724
Turnover, in EUR millions	1.93	2.60	1.3	1.71	1.85
Listed volume (31 December), in thousands	32,375	32,375	32,375	32,375	32,375
Market capitalisation (31 December), in EUR millions	28.81	39.82	43.06	33.99	34.32

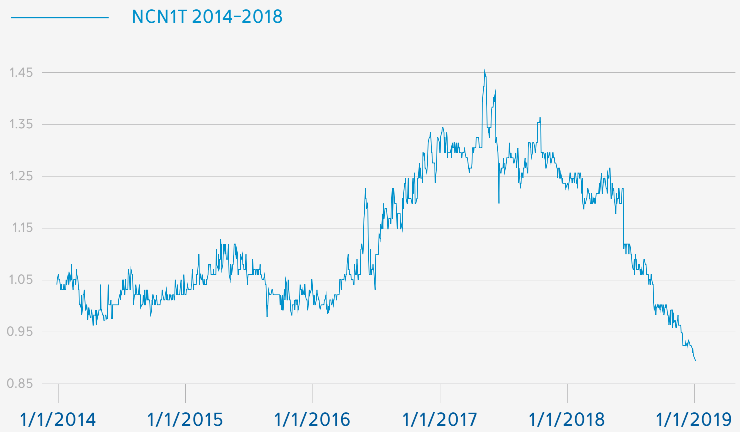
PRICE EARNINGS RATIO (P/E) AND PRICE TO BOOK RATIO (P/B)

RATIO	2018	2017	2016	2015	2014
P/E	8.3	27.4	13.3	180.4	16.7
P/B	0.9	1.1	1.1	0.9	0.9

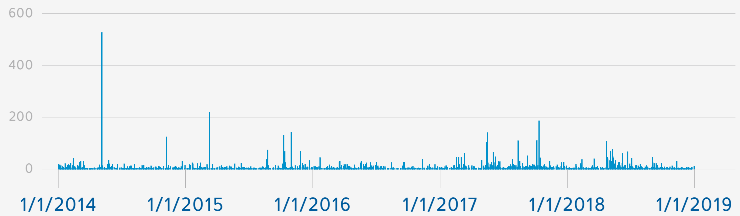
P/E = the period's last closing price of the share / earnings per share (EPS)
P/B = the period's last closing price of the share / (equity attributable to owners of the parent / number of shares outstanding)

MOVEMENTS IN THE PRICE AND TURNOVER OF THE NORDECON AS SHARE IN 2014–2018

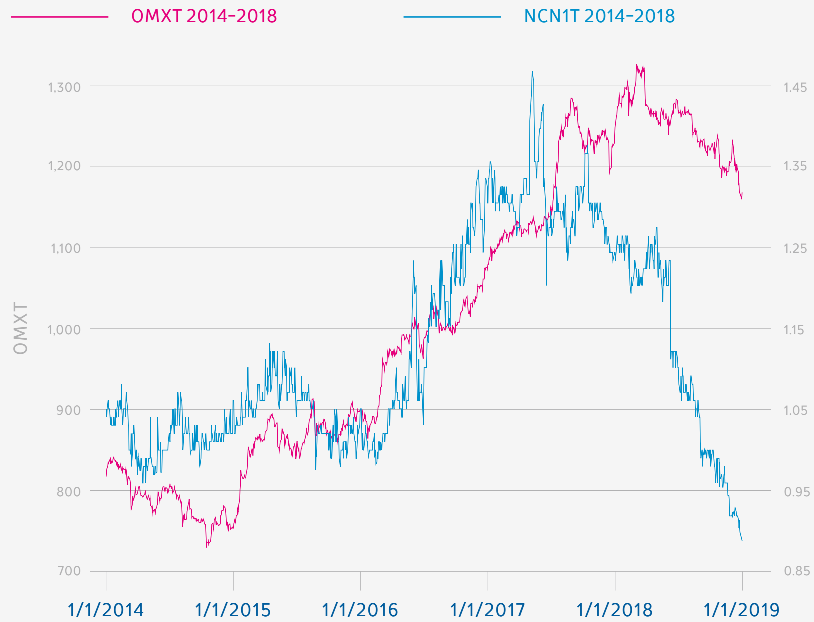
MOVEMENTS IN SHARE PRICE IN EUROS



DAILY TURNOVER IN THOUSANDS OF EUROS



MOVEMENT OF THE SHARE PRICE COMPARED TO THE OMX TALLINN INDEX IN 2014–2018



Index/equity	1 January 2014*	31 December 2018	+/-%
OMX TALLINN	817.72	1,162.86	42.21%
NCN1T	1.05 EUR	0.89 EUR	-15.24%

* Closing price on the Nasdaq Tallinn Stock Exchange at 31 December 2013.

SHAREHOLDER STRUCTURE

LARGEST SHAREHOLDERS IN NORDECON AS AT 31 DECEMBER 2018

SHAREHOLDER	NUMBER OF SHARES	OWNERSHIP INTEREST (%)
AS Nordic Contractors	16,507,464	50.99
Luksusjaht AS	4,211,925	13.01
ING Luxembourg S.A.	1,383,063	4.27
Rondam AS	1,000,000	3.09
SEB Pank AS clients	710,000	2.19
ASM Investments OÜ	519,600	1.60
Mati Kalme	500,000	1.54
State Street Bank and Trust Omnibus Account A Fund	368,656	1.14
Ain Tromp	303,960	0.94
Lembit Talpsepp	291,103	0.91

SHAREHOLDER STRUCTURE OF NORDECON AS AT 31 DECEMBER 2018

	NUMBER OF SHAREHOLDERS	OWNERSHIP INTEREST (%)
Shareholders with interest exceeding 5%	2	64.00
Shareholders with interest from 1% to 5%	6	13.84
Shareholders with interest below 1%	1,846	19.54
Holder of own (treasury) shares	1	2.62
TOTAL	1,855	100

SHAREHOLDER STRUCTURE BY SHAREHOLDER CATEGORY AT 31 DECEMBER 2018

SHAREHOLDERS BY BUSINESS LINE AND LEGAL FORM	NUMBER OF SHARES	OWNERSHIP INTEREST (%)
Companies	24,583,960	75.93
Individuals	4,593,709	14.19
Financial institutions (banks, investment funds)	2,942,814	9.09
Insurance companies	255,000	0.79
TOTAL	32,375,483	100

SHARES CONTROLLED BY MEMBERS OF THE COUNCIL OF NORDECON AS AT 31 DECEMBER 2018

COUNCIL MEMBER		NUMBER OF SHARES	OWNERSHIP INTEREST (%)
Toomas Luman (AS Nordic Contractors, OÜ Luman ja Pojad)*	Chairman of the Council	16,579,144	51.21
Andri Hõbemägi	Member of the Council	50,000	0.15
Vello Kahro	Member of the Council	10,000	0.03
Sandor Liive	Member of the Council	0	0.00
Meelis Milder	Member of the Council	0	0.00
TOTAL		16,639,144	51.39

* Companies controlled by the individual

SHARES CONTROLLED BY MEMBERS OF THE BOARD OF NORDECON AS AT 31 DECEMBER 2018

BOARD MEMBER		NUMBER OF SHARES	OWNERSHIP INTEREST (%)
Gerd Müller	Chairman of the Board	0	0.00
Priit Luman	Member of the Board	7,000	0.02
Maret Tambek	Member of the Board	0	0.00
Ando Voogma	Member of the Board	0	0.00
TOTAL		**7,000**	**0.02**

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 thousand shares in Nordecon AS. An option could be exercised when three years had passed since the signature of the option agreement but not before the general meeting had approved the company's annual report for 2016.

To satisfy the terms and conditions of the option plan, in July 2014 Nordecon AS issued a total of 1,618 thousand new shares with a total cost of 1,582 thousand euros, increasing share capital by 1,035 thousand euros to 20,692 thousand 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. The term for exercising a share option was extended. An option could be exercised within 15 months after the general meeting had approved Nordecon AS's annual report for 2016. In addition, the conditions for exercising the options granted to persons who at the grant date were members of the board were amended.

The annual general meeting which convened on 23 May 2018 adopted some amendments to the share option plan which grant Nordecon AS's chairman of the board the right to acquire up to 200,000 shares and each member of the board the right to acquire up to 129,500 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 general meeting has approved the company's annual report for 2020. Exercise of the options is linked to the achievement of the Group's EBITDA target for 2020 (from 6,083 thousand euros to 12,167 thousand euros).

At 31 December 2018, options for the acquisition of 229,857 shares had been exercised, options for the acquisition of 800,398 shares had expired and options for the acquisition of 588,500 shares were still exercisable.

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*
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	30,913	0.045	45.5%
2018	1,859	31,529	0.06	133.9%

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

In 2018, Nordecon AS reduced share capital by 1,943 thousand euros (0.06 euros per share). The reduction of share capital was paid out to shareholders in December 2018 (see also the chapter *Share and shareholders*).

The board proposes that in 2019 the company distribute for 2018 a dividend of 0.06 euros per share (1,892 thousand euros in total). 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 16,321 thousand euros to 14,378 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 846,898 own shares held at 31 December 2018.

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.

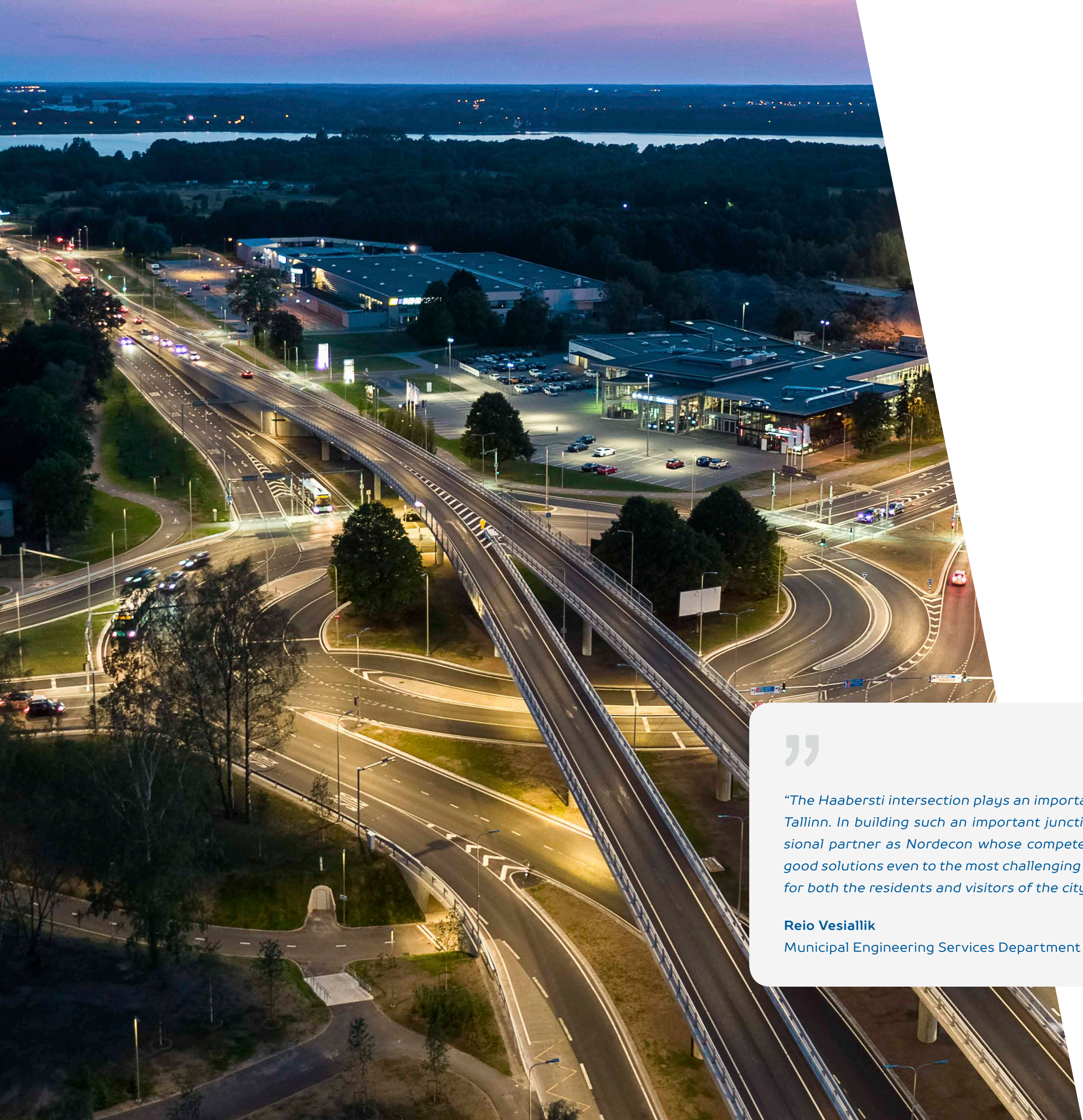
Gerd Müller Chairman of the Board	18 April 2019
Priit Luman Member of the Board	18 April 2019
Maret Tambek Member of the Board	18 April 2019
Ando Voogma Member of the Board	18 April 2019

SELECTION OF COMPLETED PROJECTS

MAJOR PROJECTS COMPLETED BY GROUP ENTITIES IN DIFFERENT SUB-SEGMENTS IN 2018*:

BRIEF DESCRIPTION OF THE PROJECT	GROUP ENTITY	CUSTOMER	SUB-SEGMENT	PAGE
Reconstruction of Haabersti traffic junction	Nordecon AS	Tallinn Municipal Engineering Services Department	Road construction	77
Reconstruction of two road sections in Tsiiruli-Missoküla of the national road No. 7 (Riia-Pihkva), together 11,7 km	Nordecon AS	Road Administration	Road construction	78
Ääsmäe-Kohatu 2+1 overtaking lanes of the national road No. 4 (Tallinn-Pärnu-Ikla)	Nordecon AS	Road Administration	Road construction	79
Metsä Wood Plywood Factory	Nordecon AS	Metsä Wood Eesti AS	Industrial and warehouse facilities	80
Lõõtsa tn 12 office and commercial building in Tallinn	Nordecon AS	AS Technopolis Ülemiste	Commercial buildings	81
Barracks of the Defence Forces base in Tapa	Nordecon AS	Centre for Defence Investment	Public buildings	82
Armored maneuvering infrastructure of the Defence Forces base in Tapa	Nordecon AS	Centre for Defence Investment	Public buildings	83
Pirita tee 20A, Meerhof 2.0, apartment buildings in Tallinn	Nordecon AS	Pirita tee 20a OÜ	Apartment buildings	84
Sõjakooli I-III apartment buildings in Tallinn	Nordecon AS	Marsi Elu OÜ	Apartment buildings	85
Health Centre in Abja-Paluoja	AS Eston Ehitus	Abja Rural Municipality	Public buildings	86
Martens House in Pärnu	AS Eston Ehitus	MP Majad OÜ	Commercial buildings	87
Riia House in Pärnu	AS Eston Ehitus	Autostock OÜ	Commercial buildings	88
Sepise 8 Parking House at Ülemiste City	Nordecon Betoon OÜ	Öpiku Majad OÜ	Commercial buildings	89
Omniva Logistics centre in Rae Parish, Harju county	Nordecon Betoon OÜ	Eesti Post AS	Industrial and warehouse facilities	90
WoHo commercial and apartment building in Tallinn	Nordecon Betoon OÜ	Ekerepol OÜ	Apartment buildings/ Commercial buildings	91
BRF Väsvy Terrass apartment building in Sweden	SweNCN AB	Brabo Stockholm AB	Apartment buildings	92
„Scandia“ I Brovarys, 4 apartment buildings in Ukraine	Eurocon Ukraine TOV	Prosperitatis LLC	Apartment buildings	93

* 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.



RECONSTRUCTION OF HAABERSTI TRAFFIC JUNCTION

CONTRACTOR
Nordecon AS

CUSTOMER
Tallinn Municipal Engineering Services Department

LOCATION
Haabersti, Tallinn

DESIGNER
K-projekt AS

CONSTRUCTION PERIOD
April 2017 – August 2018

PROJECT MANAGER
Martin Paabo

"The Haabersti intersection plays an important role in improving the traffic flows of the city of Tallinn. In building such an important junction, it was a pleasure to work with such a professional partner as Nordecon whose competence, operating speed and thoroughness ensured good solutions even to the most challenging problems and allowed us to make traffic smoother for both the residents and visitors of the city of Tallinn."

Reio Vesiallik
Municipal Engineering Services Department of the City of Tallinn

RECONSTRUCTION OF TWO ROAD SECTIONS IN TSIIRULI–MISSOKÜLA OF THE NATIONAL ROAD NO. 7 (RIIA–PIHKVA), TOGETHER 11,7 KM

CONTRACTOR
Nordecon AS

CUSTOMER
Road Administration

LOCATION
Rõuge vald, Võru county

DESIGNER
Toner-Projekt OÜ

CONSTRUCTION PERIOD
April 2018 – October 2018

PROJECT MANAGER
Mihhail Kravtšenko

ÄÄSMÄE-KOHATU 2+1 OVERTAKING LANES OF THE NATIONAL ROAD NO. 4 (TALLINN–PÄRNU–IKLA)

CONTRACTOR
Nordecon AS

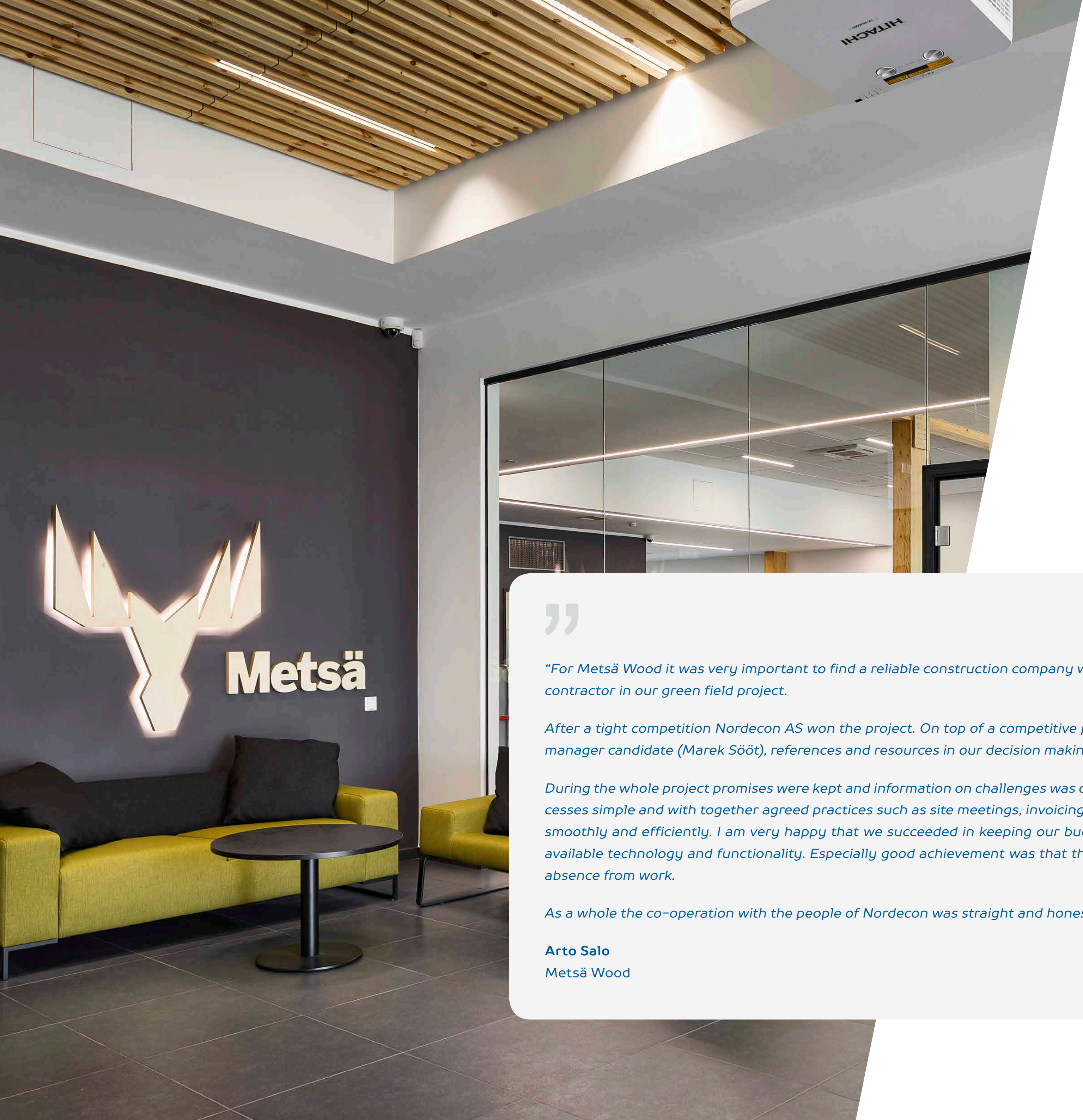
CUSTOMER
Road Administration

LOCATION
Saue and Kernu parishes, Harju county

DESIGNER
Tinter-Projekt OÜ

CONSTRUCTION PERIOD
April 2017 – June 2018

PROJECT MANAGER
Madis Padu



METSÄ WOOD PLYWOOD FACTORY

CONTRACTOR
Nordecon AS

CUSTOMER
Metsä Wood Eesti AS

LOCATION
Kase 17, Pärnu

DESIGNER
Sweco Projekt AS

CONSTRUCTION PERIOD
April 2017 – July 2018

PROJECT MANAGER
Marek Sööt

"For Metsä Wood it was very important to find a reliable construction company who has resources and capability to act as the main contractor in our green field project.

After a tight competition Nordecon AS won the project. On top of a competitive price we put value on safety processes, the project manager candidate (Marek Sööt), references and resources in our decision making.

During the whole project promises were kept and information on challenges was open and in real time. Our idea was to keep our processes simple and with together agreed practices such as site meetings, invoicing, sub-contractor acceptances etc. everything went smoothly and efficiently. I am very happy that we succeeded in keeping our budget and got a high-quality building with the best available technology and functionality. Especially good achievement was that the project went through without accidents causing absence from work.

As a whole the co-operation with the people of Nordecon was straight and honest. Nordecon delivered what they promised."

Arto Salo
Metsä Wood

LÕÕTSA TN 12 OFFICE AND COMMERCIAL BUILDING IN TALLINN

CONTRACTOR
Nordecon AS

CUSTOMER
Technopolis Ülemiste AS

LOCATION
Lõõtsa 12, Tallinn

DESIGNER
Novarc Group AS

CONSTRUCTION PERIOD
November 2016 – March 2018

PROJECT MANAGER
Rauno Rausk

BARRACKS OF THE DEFENCE FORCES BASE IN TAPA

CONTRACTOR
Nordecon AS

CUSTOMER
Centre for Defence Investment

LOCATION
Loode tee 35, Tapa, Lääne-Viru county

DESIGNER
SWECO Projekt AS, ConArte OÜ

CONSTRUCTION PERIOD
October 2017 – September 2018

PROJECT MANAGER
Priit Murmann

"A partner that focuses on results and collaboration. Did so in 2018 and hopefully will keep it up in future projects."

Mart Salusaar
The Centre for Defence Investment

ARMORED MANEUVERING INFRASTRUCTURE OF THE DEFENCE FORCES BASE IN TAPA

CONTRACTOR
Nordecon AS

CUSTOMER
Centre for Defence Investment

LOCATION
Loode tee 35, Tapa, Lääne-Viru county

DESIGNER
AB Ansambel OÜ, ConArte OÜ

CONSTRUCTION PERIOD
October 2017 – December 2018

PROJECT MANAGER
Priit Murmann

PIRITA TEE 20A, MEERHOF 2.0, APARTMENT BUILDINGS IN TALLINN

CONTRACTOR
Nordecon AS

CUSTOMER
Pirita tee 20a OÜ

LOCATION
Pirita tee 20A, Tallinn

DESIGNER
Arhitektuuribüroo T.Sooväli OÜ

CONSTRUCTION PERIOD
December 2015 – October 2018

PROJECT MANAGER
Agu Zilensk

"Despite the very high-quality requirements, numerous special solutions and technical complexity of the Meerhof 2.0 residences, the Metro Capital team is highly satisfied with how the project was performed. For us, it was the largest and most exclusive apartment building complex we have ever developed. Although during the project there arose several complex challenges, we are pleased to state that we made the right choice in trusting Nordecon AS – the main contractor involved additional resources and made adjustments until the agreed result was achieved and delivered to the end customers. Also, the warranty period has been quite uneventful. This speaks for itself."

Rain Pärn
Metro Capital OÜ

SÕJAKOOLI I–III APARTMENT BUILDINGS IN TALLINN

CONTRACTOR
Nordecon AS

CUSTOMER
Marsi Elu OÜ

LOCATION
Sõjakooli 12, Tallinn

DESIGNER
Allianss Arhitektid OÜ

CONSTRUCTION PERIOD
November 2016 – April 2019

PROJECT MANAGER
Silver Sein

HEALTH CENTRE IN ABJA-PALUOJA

CONTRACTOR
AS Eston Ehitus

CUSTOMER
Abja Rural Municipality

LOCATION
Järve 5, Abja-Paluoja, Viljandi county

DESIGNER
TEEKAA Arhitektuur OÜ

CONSTRUCTION PERIOD
2017–2018

PROJECT MANAGER
Priit Talts

MARTENS HOUSE IN PÄRNU

CONTRACTOR
AS Eston Ehitus

CUSTOMER
MP Majad OÜ

LOCATION
Pikk 12, Pärnu

DESIGNER
Arhitektuuribüroo BOA OÜ

CONSTRUCTION PERIOD
2016–2018

PROJECT MANAGER
Valdo Knaps

RIIA HOUSE IN PÄRNU

CONTRACTOR
AS Eston Ehitus

CUSTOMER
Autostock OÜ

LOCATION
Riia mnt 169a, Pärnu

DESIGNER
AB Riho Jaagomägi

CONSTRUCTION PERIOD
2018

PROJECT MANAGER
Mati Palu

SEPISE 8 PARKING HOUSE AT ÜLEMISTE CITY

CONTRACTOR
Nordecon Betoon OÜ

CUSTOMER
Öpiku Majad OÜ

LOCATION
Sepise 8, Tallinn

DESIGNER
Nordecon Betoon OÜ

CONSTRUCTION PERIOD
July 2017 – July 2018

PROJECT MANAGER
Mihhail Varep

OMNIVA LOGISTICS CENTRE IN RAE PARISH, HARJU COUNTY

CONTRACTOR
Nordecon Betoon OÜ

CUSTOMER
Eesti Post AS

LOCATION
Rukki tee 7, Lehmja, Harju county

DESIGNER
Nord Projekt AS

CONSTRUCTION PERIOD
September 2017 – August 2018

PROJECT MANAGER
Mihhail Varep

WOHO COMMERCIAL AND APARTMENT BUILDING IN TALLINN

CONTRACTOR
Nordecon Betoon OÜ

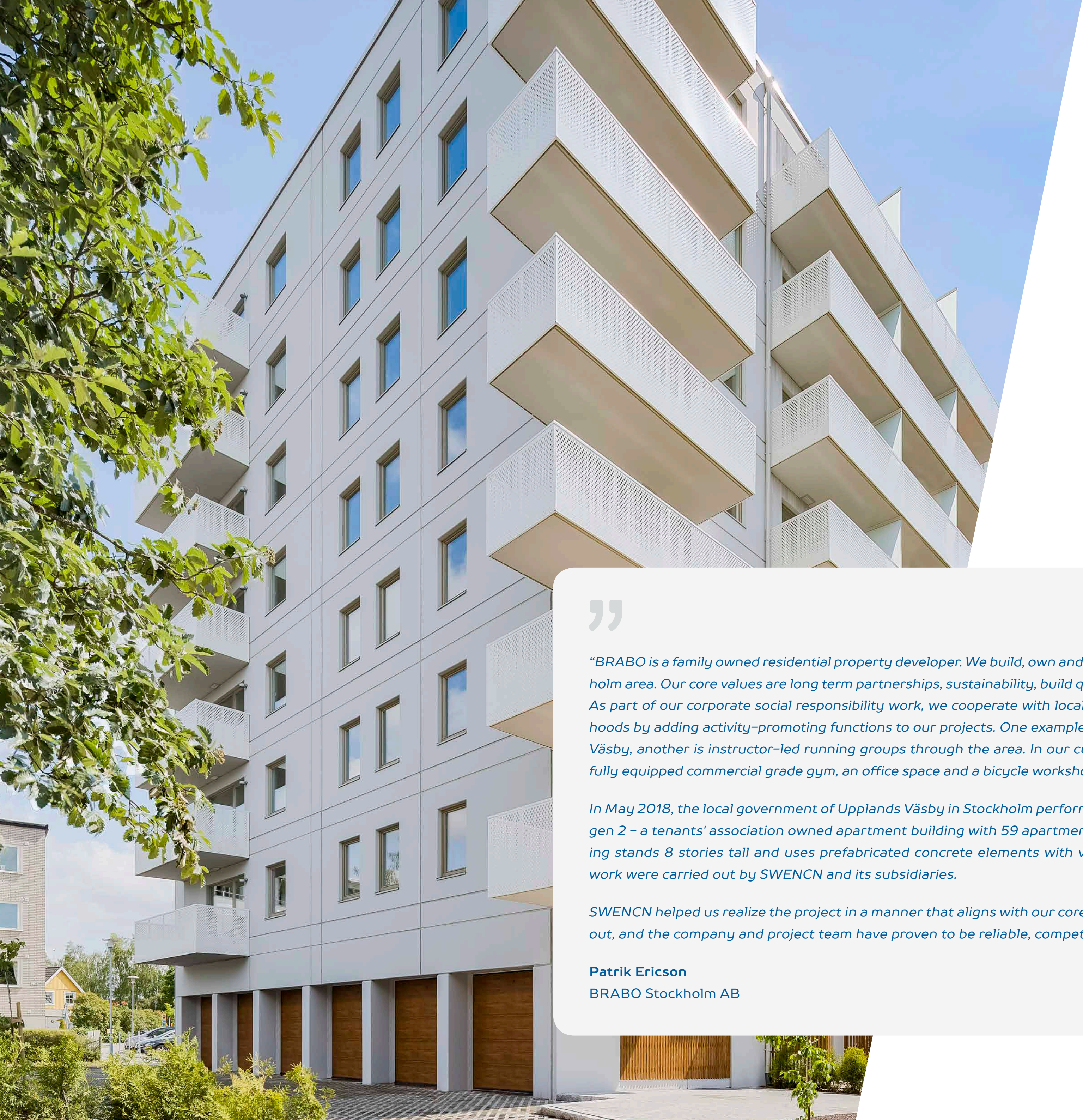
CUSTOMER
Ekerepol OÜ

LOCATION
Mustamäe tee 3, Tallinn

DESIGNER
Nordecon Betoon OÜ ja Mapri Ehitus OÜ

CONSTRUCTION PERIOD
April 2017 – December 2018

PROJECT MANAGER
Taavi Kaiv



BRF VÄSVY TERRASS APARTMENT BUILDING IN SWEDEN

CONTRACTOR
SweNCN AB

CUSTOMER
Brabo Stockholm AB

LOCATION
Upplands Väsbys, Sweden

DESIGNER
E-Inseneribüroo

CONSTRUCTION PERIOD
January 2017 – June 2018

PROJECT MANAGER
Priit Kiiver

"BRABO is a family owned residential property developer. We build, own and manage properties with focus on the greater Stockholm area. Our core values are long term partnerships, sustainability, build quality, technology, urban planning and architecture. As part of our corporate social responsibility work, we cooperate with local governments to create safe and active neighbourhoods by adding activity-promoting functions to our projects. One example is a multi-sport recreational park built in Upplands Väsby, another is instructor-led running groups through the area. In our current projects we include common areas such as a fully equipped commercial grade gym, an office space and a bicycle workshop for the tenants to use free of charge.

In May 2018, the local government of Upplands Väsby in Stockholm performed the groundbreaking ceremony at Trädgårdsvägen 2 - a tenants' association owned apartment building with 59 apartments developed by BRABO Stockholm AB. The building stands 8 stories tall and uses prefabricated concrete elements with visible joints. All technical design and construction work were carried out by SWENCN and its subsidiaries.

SWENCN helped us realize the project in a manner that aligns with our core values. We are very satisfied with the work carried out, and the company and project team have proven to be reliable, competent and cooperative."

Patrik Ericson
BRABO Stockholm AB

„SCANDIA“ I BROVARYS, 4 APARTMENT BUILDINGS IN UKRAINE

CONTRACTOR
Eurocon Ukraine TOV

CUSTOMER
Prosperitatis LLC

LOCATION
Bohunska Str., Brovary, Ukraina

DESIGNER
PNVP Bazys Center

CONSTRUCTION PERIOD
2015–2018

PROJECT MANAGER
Petro Golenia

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

EUR '000 AS AT 31 DECEMBER	NOTE	2018	2017
ASSETS			
Current assets			
Cash and cash equivalents	8	7,678	8,915
Trade and other receivables	9	31,627	35,193
Prepayments	10	1,383	1,642
Inventories	11	20,444	23,230
Total current assets		**61,132**	**68,980**
Non-current assets			
Investments in equity-accounted investees	12	2,266	1,888
Other investments		26	26
Trade and other receivables	9	8,225	8,950
Investment property	13	5,526	4,929
Property, plant and equipment	14	12,288	12,566
Intangible assets	15	14,674	14,639
Total non-current assets		**43,005**	**42,998**
TOTAL ASSETS		**104,137**	**111,978**

EUR '000 AS AT 31 DECEMBER	NOTE	2018	2017
LIABILITIES			
Current liabilities			
Borrowings	16	9,374	16,197
Trade payables	18	34,954	36,057
Other payables	19	5,187	5,654
Deferred income	20	3,932	3,651
Provisions	21	1,013	533
Total current liabilities		**54,460**	**62,092**
Non-current liabilities			
Borrowings	16	14,830	13,955
Trade payables	18	98	98
Other payables	19	71	71
Provisions	21	969	1,273
Total non-current liabilities		**15,968**	**15,397**
TOTAL LIABILITIES		**70,428**	**77,489**
EQUITY			
Share capital	22	16,321	18,263
Own (treasury) shares		-693	-1,349
Share premium		618	589
Statutory capital reserve	22	2,554	2,554
Translation reserve	22	1,992	1,995
Retained earnings		10,896	11,086
Total equity attributable to owners of the parent		**31,688**	**33,138**
Non-controlling interests		**2,021**	**1,351**
TOTAL EQUITY		**33,709**	**34,489**
TOTAL LIABILITIES AND EQUITY		**104,137**	**111,978**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

EUR '000	NOTE	2018	2017
Revenue	25, 28	223,496	231,387
Cost of sales	29	-213,463	-222,692
Gross profit		**10,033**	**8,695**
Marketing and distribution expenses		-626	-623
Administrative expenses	30	-6,725	-6,936
Other operating income	31	1,471	107
Other operating expenses	31	-122	-141
Operating profit		**4,031**	**1,102**
Finance income	32	431	2,901
Finance costs	32	-909	-1,570
Net finance costs/income		**-478**	**1,331**
Share of profit of equity-accounted investees	12	835	485
Profit before income tax		**4,388**	**2,918**
Income tax expense	33	-567	-1,193
Profit for the period		**3,821**	**1,725**
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Exchange differences on translating foreign operations		-3	446
Total other comprehensive expense/income		**-3**	**446**
TOTAL COMPREHENSIVE INCOME		**3,818**	**2,171**

EUR '000	NOTE	2018	2017
Profit attributable to:			
– Owners of the parent	23	3,381	1,388
– Non-controlling interests		440	337
Profit for the period		**3,821**	**1,725**
Total comprehensive income attributable to:			
– Owners of the parent		3,378	1,834
– Non-controlling interests		440	337
Total comprehensive income for the period		**3,818**	**2,171**
Earnings per share attributable to owners of the parent:			
Basic earnings per share (EUR)	23	0.11	0.04
Diluted earnings per share (EUR)	23	0.11	0.04

CONSOLIDATED STATEMENT OF CASH FLOWS

EUR '000	NOTE	2018	2017
Cash flows from operating activities			
Cash receipts from customers[1]		269,292	268,013
Cash paid to suppliers[2]		-232,669	-239,592
VAT paid		-8,269	-6,971
Cash paid to and for employees		-23,066	-22,593
Income tax paid		-596	-605
Net cash from/used in operating activities		**4,692**	**-1,748**
Cash flows from investing activities			
Paid on acquisition of property, plant and equipment		-534	-343
Paid on acquisition of intangible assets		0	-5
Proceeds from sale of property, plant and equipment		1,784	49
Paid on acquisition of investment property	13	-88	0
Proceeds from sale of investment property	13	1,300	0
Disposal of investments in subsidiaries and a joint venture		0	2,744
Loans provided		-12	-45
Repayment of loans provided		14	1,739
Dividends received		460	153
Interest received		10	368
Net cash from investing activities		**2,934**	**4,660**

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

EUR '000	NOTE	2018	2017
Cash flows from financing activities			
Proceeds from loans received	16	2,898	9,207
Repayment of loans received	16	-4,671	-4,245
Finance lease principal paid	16, 17	-1,879	-2,252
Interest paid		-737	-752
Dividends paid		-2,627	-4,497
Reduction of share capital		-1,847	-1,384
Sale of own shares		0	153
Net cash used in financing activities		**-8,863**	**-3,770**
Net cash flow		**-1,237**	**-858**
Cash and cash equivalents at beginning of year		**8,915**	**9,786**
Effect of movements in foreign exchange rates		0	-13
Decrease in cash and cash equivalents		-1,237	-858
Cash and cash equivalents at end of year		**7,678**	**8,915**

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
BALANCE AT 31 DECEMBER 2016	**19,720**	**-1,550**	**2,554**	**564**	**1,549**	**13,091**	**35,928**	**2,118**	**38,046**
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
Transactions with owners									
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
Total transactions with owners	**-1,457**	**201**	**0**	**25**	**0**	**-3,393**	**-4,624**	**-1,104**	**-5,728**
BALANCE AT 31 DECEMBER 2017	**18,263**	**-1,349**	**2,554**	**589**	**1,995**	**11,086**	**33,138**	**1,351**	**34,489**
Profit for the period	0	0	0	0	0	3,381	3,381	440	3,821
Other comprehensive expense	0	0	0	0	-3	0	-4	0	-4
Transactions with non-controlling interests	0	530	0	0	0	-1,746	-1,216	998	-218
Transactions with owners									
Exercise of share options	0	71	0	0	0	0	71	0	71
Dividend distribution	0	0	0	0	0	-1,859	-1,859	-768	-2,627
Cancellation of dividends	0	0	0	0	0	34	34	0	34
Reduction of share capital	-1,942	55	0	29	0	0	-1,858	0	-1,858
Total transactions with owners	**-1,942**	**126**	**0**	**29**	**0**	**-1,825**	**-3,612**	**-768**	**-4,380**
BALANCE AT 31 DECEMBER 2018	**16 321**	**-693**	**2 554**	**618**	**1 992**	**10 896**	**31 688**	**2 021**	**33 709**

Further information on share capital and other components of equity 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 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 2018 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 associate 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 2018 have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS EU). The parent's primary financial statements are presented in note 38 to the consolidated financial statements in accordance with the requirements of the Estonian 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 18 April 2019.

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 2018, the Group conducted most of its business in Estonia. Estonia's gross domestic product (GDP) grew by 3.9% (2017: 4.9%). For the third year in a row, Estonia's economic growth rate exceeded 3%. GDP growth was driven by construction, manufacturing and professional services, science and technology. Volumes in the local construction market grew for the third year in a row. The growth rate for 2018 was 21%. In 2018, Estonian construction companies' total output in Estonia and abroad (combined, in current prices) was approximately 3 billion euros, 18% up on 2017. Compared to 2017, the construction volume of both buildings and infrastructure grew. The number of new dwellings grew for the seventh year in a row. In 2018, 6,472 new dwellings received a permit of use, a rise of 582 on the prior year (2017: 5,890).

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 2019, public investment is not expected to grow substantially compared to 2018.

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 to 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 2018 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 Estonia in Pärnu and in Ukraine in Shastliv village near Kiev, next to the Kiev-Borispol motorway. In the period under review, the number of sales transactions involving plots without buildings in the above regions was insufficient for valuing the properties using the sales comparison method. Thus, the Group estimated the values of the 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 planned building rights (including the location of the property). Using the above estimates, the fair value of the investment properties located in Pärnu was measured as at the reporting date. The valuation did not indicate a need for adjusting the fair value of the properties. The fair value of the investment property in Ukraine was also measured as at the reporting date and, as a result, a previously recognised impairment loss of 934 thousand euros was reversed. A sensitivity analysis of the valuations is presented in the notes to the consolidated financial statements.

PROVISIONS AND CONTINGENT LIABILITIES (NOTES 21 AND 35) (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. Provisions are recognised after the completion of construction activity and the delivery of the project to the customer. Warranty periods generally extend from 2 to 3 years in general construction and civil engineering and from 2 to 5 years 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 8.9% to 9.5%.

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 method. Management measures each loan on an individual basis. The need for writing down a loan provided, either in part or in full, is decided based on the debtor's financial position and cash flow forecast and the value of the collateral.

The repayment of the loan the Group has provided to its Ukrainian associate for the acquisition and development of a property (a plot) depends on how successfully the real estate project can be realised. The Group determines the value of the development project to be carried out 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 loan were realistic but due to the complicated situation of the Ukrainian economy the sensitivity of the value of the loan is higher than usual. Significant inputs estimated by management included the project's cash flows (expected rental prices), discount rates, the vacancy rates of the commercial premises to be rented out, and the time factor of the realisation of the project (delays in completion).

NOTE 3.
SIGNIFICANT ACCOUNTING POLICIES

CHANGES IN PRESENTATION OF INFORMATION

In 2018, the Group changed its policy for presenting the sales of its own development projects which are conducted via a notary's account. Until 2018, such transactions were not presented in the statement of cash flows because the cash involved does not move through the Group's bank accounts. Since the Group's development projects are financed with bank loans and the above presentation policy did not faithfully represent the Group's loan repayments, from 2018 sales transactions conducted via notaries' accounts are presented in the statement of cash flows as both cash received from customers and loan repayments.

Impact of the change in presentation on the statement of cash flows for 2017:

EUR '000	2017
Cash receipts from customers	3,122
Net cash from operating activities	**3,122**
Repayment of loans received	-3,122
Net cash used in financing activities	**-3,122**

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

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.

Investments in associates 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 prepare their financial statements in accordance with the Estonian Financial Reporting Standard and the Group's Ukrainian associate prepares its 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 associates accounted for using the equity method are eliminated against the investment to the extent of the parent's interest in the investee. Unrealised losses from transactions with associates are eliminated in the same way as unrealised profits, but only to the extent that there is no evidence of impairment of the investment and the need to write the investment down.

TRANSLATION OF THE FINANCIAL STATEMENTS OF FOREIGN SUBSIDIARIES

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

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

	DATE	SWEDISH KRONA (SEK)	UKRAINIAN HRYVNIA (UAH)*
1 euro (EUR)	31 December 2018	10.2548	31.7141
1 euro (EUR)	31 December 2017	9.8438	33.4954

* 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

Accounting policies from 1 January 2018

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.

Depending on their classification, subsequent to initial recognition, all financial assets are measured in their entirety either at their amortised cost or fair value.

CLASSIFICATION OF FINANCIAL ASSETS

The classification and subsequent measurement of a financial asset depends on the business model chosen for managing relevant financial assets and the contractual terms of the cash flows. The classification of a financial asset is determined on its initial recognition.

a) Financial assets measured at amortised cost

Subsequent to initial recognition, debt instruments are measured at their amortised cost using the effective interest method only if both of the following conditions are met:

- the financial asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding.

The Group has classified cash and cash equivalents, trade receivables, amounts due from customers for contract work, loans provided and other receivables as financial assets measured at amortised cost.

The effective interest method is the method of calculating the amortised cost of a debt instrument and of allocating the interest income over the relevant contract period. The effective interest rate is the rate that discounts estimated future cash receipts through the expected life of the debt instrument or, when appropriate, a shorter period, to the gross carrying amount of the debt instrument measured at initial recognition (the calculation includes all fees paid or received that are an integral part of the effective interest rate, transaction costs, and other premiums or discounts but excludes expected future credit losses).

Interest income is recognised within *Finance income* in profit or loss.

b) Financial assets measured at fair value through other comprehensive income

A debt instrument is measured at fair value through other comprehensive income if both of the following conditions are met:

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The Group has not classified any financial assets as measured at fair value through other comprehensive income.

c) Financial assets measured at fair value through profit or loss

Financial assets that do not meet the conditions for financial assets measured at amortised cost and financial assets measured at fair value through other comprehensive income are measured at fair value through profit or loss. In particular:

- investments in equity instruments are classified as measured at fair value through profit or loss unless the Group makes an election at initial recognition to present an investment in an equity instrument that is neither held for trading nor contingent consideration recognised in a business combination as a financial asset measured at fair value through other comprehensive income;
- debt instruments that do not meet the conditions for financial assets measured at amortised cost and financial assets measured at fair value through other comprehensive income are classified as measured at fair value through profit or loss. In addition, debt instruments that meet the conditions for either financial assets measured at amortised cost or financial assets measured at fair value through other comprehensive income may be designated as measured at fair value through profit or loss if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases.

The Group has not classified any debt instruments as measured at fair value through profit or loss.

The Group measures derivative financial assets at fair value through profit or loss unless they have been designated as effective hedging instruments.

When an asset has been designated as measured at fair value through profit or loss, any gains and losses on changes in its fair value are recognised in the period in which they arise in profit or loss, within Finance income and Finance expenses respectively.

Accounting policies until 31 December 2017

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 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 financial 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
Land	Not depreciated
Buildings and structures	33
Plant and equipment	3–12
Vehicles	5–7
Other equipment, fixtures and fittings	3–10

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 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 trade 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*. 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. Assets that are not individually significant are assessed for impairment collectively, in groups of items with similar risk characteristics.

IMPAIRMENT OF NON-FINANCIAL ASSETS

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

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

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

PROVISIONS AND CONTINGENT LIABILITIES

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

The Group recognises provisions for onerous construction contracts in progress based on the uncompleted parts of the contracts (see also *Revenue from construction contracts*).

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

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

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

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

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

SHORT-TERM EMPLOYEE BENEFITS

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

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

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

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

SHARE-BASED PAYMENTS

The option agreements signed with the Group's key personnel are accounted for as consideration provided in the form of equity instruments for services rendered to the Group. Owing to the difficulty of measuring directly the fair value of services received by the Group, the fair value of services received from the Group's key personnel is measured by reference to the fair value of the equity instruments granted at grant date. The cost of equity-settled share-based payment transactions is recognised as an expense and a corresponding increase in equity at the vesting date of the equity instruments. The grant of share options is conditional upon the member of the key personnel remaining in the Group's employ until the vesting date and the satisfaction of specific performance conditions.

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

DERIVATIVES

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

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

LEASES

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

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

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

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

STATUTORY CAPITAL RESERVE

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

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

EARNINGS PER SHARE

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

INCOME TAX

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

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

PARENT COMPANY AND SUBSIDIARIES AND ASSOCIATES REGISTERED IN ESTONIA

Under Estonian laws, corporate profit for the year is not subject to income tax. Income tax is levied on dividends, gifts, donations, entertainment expenses, non-business expenditures and transfer price adjustments. The tax rate is 20%; the amount of tax payable is calculated as 20/80 of the net distribution or payment. From 2019, regular dividend distributions are subject to a lower tax rate of 14% (14/86 of the net distribution). In 2019, the lower tax rate applies to dividend distributions that amount to up to one third of the net dividend that was distributed and taxed in 2018. The income tax payable on dividends is recognised in profit or loss in the period in which the dividends are declared.

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

FOREIGN SUBSIDIARIES AND ASSOCIATES

In Ukraine, Finland, Sweden and Lithuania corporate profits are subject to income tax. In 2018, the income tax rates were as follows: Ukraine 18% (2017: 18%), Finland 20% (2017: 20%), Sweden 22% (2017: 22%) and Lithuania 15% (2017: 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.

REVENUE

Revenue is income arising in the course of the Group's ordinary activities. Revenue is recognised in the amount of the transaction price. The transaction price is the amount of consideration to which the Group expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties. The Group recognises revenue when control of a good or service is transferred to the customer.

REVENUE FROM CONSTRUCTION CONTRACTS

Accounting policies from 1 January 2018

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 using the cost method, i.e. based on 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 entire expected loss is recognised immediately as an expense in profit or loss and in Provisions in the statement of financial position (see also the accounting policy *Construction contracts in progress*).

Accounting policies until 31 December 2017

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 accounting policy *Construction contracts in progress*).

REVENUE FROM SALE OF GOODS PURCHASED AND FINISHED GOODS

Revenue from the sale of goods purchased and finished goods, including real estate developed by the Group (own developments), is recognised when control of the goods has been substantially 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 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 construction contract is determined using the cost method, i.e. based on 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

The Group adopted IFRS 15 *Revenue from Contracts with Customers* and IFRS 9 *Financial Instruments* from 1 January 2018.

IFRS 15 *Revenue from Contracts with Customers.* 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. See also note 2, the section *Significant accounting policies*, subsection *Revenue*.

IFRS 9 *Financial Instruments.* The standard sets out requirements for recognising and measuring financial assets, financial liabilities and certain contracts to buy or sell non-financial items. The standard replaces, to a material extent, IAS 39 *Financial Instruments: Recognition and Measurement.*

Classification of financial instruments

Although the permissible measurement bases for financial assets – amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL) – are similar to IAS 39, the criteria for classification into the appropriate measurement category are significantly different.

A financial asset is measured at amortised cost if both of the following two conditions are met and it has not been designated as measured at FVTPL:

- the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and,
- the contractual terms of the asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding.

A financial asset (unless it is a trade receivable without a significant financing component that is initially measured at the transaction price) is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition.

Such assets are subsequently measured at amortised cost using the effective interest method. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.

Expected credit loss model

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.

Under IFRS 9, loss allowances are measured from initial recognition of the financial assets, on either of the following bases:

- 12-month expected credit losses: these are expected credit losses that result from possible default events within the 12 months after the reporting date; and
- Lifetime expected credit losses: these are expected credit losses that result from all possible default events over the expected life of a financial instrument.

Expected credit losses are probability-weighted estimates of credit losses. A credit loss is the difference between the cash flows that are due to the Group in accordance with the contract and the cash flows that the Group expects to receive discounted at the original effective interest rate.

The table below explains the classification and measurement of financial assets and liabilities under IFRS 9 and IAS 39 at the date of initial application of IFRS 9, i.e. 1 January 2018.

Application of the above standards, IFRS 15 and IFRS 9, did not have a material effect on the Group's financial statements as at 1 January 2018.

EUR '000	ORIGINAL CLASSIFICATION UNDER IAS 39	NEW CLASSIFICATION UNDER IFRS 9	31 DECEMBER 2017 CARRYING AMOUNT UNDER IAS 39	1 JANUARY 2018 CARRYING AMOUNT UNDER IFRS 9
ASSETS				
Trade and other receivables (long-term)	Loans and receivables	Amortised cost	8,950	8,950
Trade and other receivables (short-term)	Laenud ja Loans and receivables	Amortised cost	35,193	35,193
Cash and cash equivalents	Laenud ja Loans and receivables	Amortised cost	8,915	8,915
LIABILITIES				
Borrowings (long-term)	Other financial liabilities	Other financial liabilities	13,955	13,955
Borrowings (short-term)	Other financial liabilities	Other financial liabilities	16,197	16,197
Trade payables (long-term)	Other financial liabilities	Other financial liabilities	98	98
Trade payables (short-term)	Other financial liabilities	Other financial liabilities	36,057	36,057

Several other new standards became effective from 1 January 2018 but they did not have a material effect on the Group's financial statements.

Amendments to IFRS 2: *Classification and Measurement of Share-based Payment Transactions.* The amendments clarify share-based payment accounting on 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.

Amendments to IAS 40 – *Transfers of Investment Property*. 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.

IFRIC 22 *Foreign Currency Transactions and Advance Consideration.* The interpretation clarifies how to determine the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration in a foreign currency. In such circumstances, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration.

NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS NOT YET EFFECTIVE

As at 31 December 2018, 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 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 new standard, when initially applied, requires the recognition of assets and liabilities related to operating leases under which the Group is a lessee in the statement of financial position. The effect of the initial application of the standard is as follows (the table reflects the effect of operating leases only):

EFFECT OF CHANGES TO THE CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

EUR '000	EFFECT OF CHANGES 2019
Cost of sales (depreciation expense)	-895

EFFECT OF CHANGES TO THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION:

EUR '000	EFFECT OF CHANGES AT 1 JANUARY 2019
Right to use assets	4,260
Short-term lease liabilities	1,061
Long-term lease liabilities	3,199

Other new standards, amendments, 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 no need to write down receivables from public sector customers thanks to their stable solvency. In 2018, the share of revenue earned from public sector customers grew compared to 2017, rising to around 34% (2017: around 25%). The largest public sector customers were the National Road Administration and the Centre for Defence Investment (2017: the Ministry of Defence) whose contracts accounted for around 13% and 10% of the Group's revenue respectively (2017: 8% and 11% respectively). 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 is written down. 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. The Group also analyses the probability of future credit losses. The analysis is performed on both trade receivables and amounts due from customers for contract work.

Expected credit losses are estimated using a provision matrix that is based on the Group's historical credit loss experience, adjusted for factors specific to the debtors, general economic conditions, an assessment of both the current and forecast direction of conditions at the reporting date and, where appropriate, the time value of money. Lifetime expected credit losses are expected credit losses that result from all possible default events over the expected life of a financial instrument. Based on an analysis performed, the Group recognised a provision of 5 thousand euros at 31 December 2018 (31 December 2017: 9 thousand euros) (note 9).

Further information on the Group's credit risk exposure is provided in note 34.

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.
- The settlement terms for the Group's receivables are often longer than the settlement terms for the Group's payables. Moreover, in the construction sector it is often necessary to make prepayments to subcontractors and materials suppliers while customers are generally not required to make advance payments. The Group has to cover the shortfall working capital, which arises from the mismatch between cash receipts and payments, with own funds or using credit lines provided by financial 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 2019

At the reporting date, the Group's current assets and current liabilities amounted to 61,132 thousand euros and 54,460 thousand euros respectively, current ratio was 1.12 (31 December 2017: 68,980 thousand euros and 62,092 thousand euros respectively, current ratio: 1.11). Current liabilities included borrowings of 9,374 thousand euros (31 December 2017: 16,197 thousand euros). In April 2019, the Group refinanced loan liabilities of 5,334 thousand euros, which at the reporting date were classified as current (new maturity date: 30 May 2020). 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 61,132 thousand euros and 49,126 thousand euros respectively (current ratio would be 1.24).

In the light of the above, the Group's management is confident that in 2019 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 34.

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, borrowings denominated in euros. The exchange rate of the hryvnia is unstable because the political and economic environment in Ukraine continues to be strained due to the conflict between Ukraine and Russia, which broke out at the beginning of 2014, and the discontinuance of the determination of the national currency's indicative exchange rate by the National Bank of Ukraine at the beginning of 2015. In 2018, the hryvnia/euro exchange rate strengthened by approximately 5.6%. As a result, the Group's Ukrainian subsidiary had to translate its euro-denominated loans into the local currency, which gave rise to a foreign exchange gain of 147 thousand euros (2017: an exchange loss of 416 thousand euros). Exchange gains and losses on financial instruments have been recognised in *Finance income* and *Finance costs* respectively.

Translation of receivables and liabilities from operating activities did not give rise to any exchange gains or losses. Nor do the loans provided to the Group's Ukrainian associate 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 2019 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 4.0%. In 2018, the translation of receivables and payables related to operating activity due to the movement of the Swedish krona against the euro gave rise to an exchange loss of 76 thousand euros (2017: an exchange loss of 15 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 121 thousand euros (2017: 35 thousand 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 34.

COUNTRY RISK

In the reporting period, the Group operated in Ukraine, Sweden and Finland. Revenues generated in Ukraine, Sweden and Finland accounted for 4%, 2% and 1% of the Group's total revenue respectively (2017: Ukraine 2%, Sweden 3% and Finland 1%). At the year-end, assets located in Ukraine, Sweden and Finland accounted for 3%, 0.7% and 0.8% of the Group's total assets respectively (2017: Ukraine 1.1%, Sweden 1.8% and Finland 0.7%).

The conflict between Ukraine and Russia that broke out at the beginning of 2014 influenced the political and economic environment in Ukraine also in 2018. In recent years, our business activity in Ukraine has increased but we have remained conservative about the contracts we sign. The Group's projects are mainly located 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. We have accepted contracts only when we have been certain that the risks involved are reasonable, considering the circumstances. The situation in the Kiev region is stable, considering the backdrop, and companies have adapted to the new environment. In the period under review, our Ukrainian business volumes doubled compared to 2017.

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 the investments made and loans provided, the Group and the co-owners have privatised the property held by the associate V.I. Center TOV and created mortgages on it.

The deterioration in the political and economic environment, caused by the conflict between Ukraine and Russia, has increased Ukraine's country risk for the Group. 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 and investment property that are related to Ukraine carry increased risk and the probability that their value may decrease is above average (notes 9 and 13).

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 34.

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

The Group 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.

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

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 decreased compared to 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 33% (2017: 37%) assuming all other variables remained constant.

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 2018: 32.4%; 2017: 30.8%).

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.

EUR '000 AS AT 31 DECEMBER	2018	2017
Total interest-bearing liabilities (note 16)	24,204	30,152
Cash and cash equivalents (note 8)	-7,678	-8,915
Net interest-bearing liabilities	16,526	21,237
Total equity	33,709	34,489
Invested capital (interest-bearing liabilities + equity)	57,913	64,641
Gearing ratio*	29%	33%

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

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*
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	30,913	0.045	45.5%
2018	1,859	31,529	0.06	133.9%

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

The board proposes that in 2019 the company should distribute for 2018 a dividend of 0.06 euros per share (1,892 thousand euros in total). Own (treasury) shares do not grant the company any shareholder rights (note 24).

NOTE 6.
GROUP ENTITIES

SUBSIDIARY	CORE BUSINESS	COUNTRY OF INCORPORATION	OWNERSHIP INTEREST 2018 (%)	OWNERSHIP INTEREST 2017 (%)
Nordecon Betoon OÜ	Concrete works	Estonia	52	52
Eston Ehitus AS	Building construction	Estonia	100	100
Tariston OÜ	Road construction and maintenance	Estonia	100	100
Kaurits OÜ	Leasing out heavy equipment and construction as a subcontractor	Estonia	100	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[4]	Holding company (UKR)	Estonia	100	100
Eurocon Vara OÜ	Holding company (UKR)	Estonia	–	100
SWENCN OÜ	Holding company (SE)	Estonia	100	60
Eurocon Ukraine TOV	Building construction	Ukraine	100	100
Eurocon BUD TOV	Building construction	Ukraine	100	100
Technopolis-2 TOV[4]	Real estate development	Ukraine	100	–
NOBE Rakennus Oy	Concrete works	Finland	52	52
Nordecon Statyba UAB[4]	Building construction	Lithuania	80	80
SWENCN AB	Building construction (SE)	Sweden	100	60

[4] Dormant

At 31 December 2018, the consolidated financial statements of Nordecon Group included 20 subsidiaries (2017: 20), of which 14 were incorporated and domiciled in Estonia (2017: 15), 3 in Ukraine (2017: 2), 1 in Lithuania (2017: 1), 1 in Sweden (2017: 1) and 1 in Finland (2017: 1).

The parent company's interests in subsidiaries as at the reporting date: (see table on the left)

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 2018, the Group had interests in 4 associates (2017: 5). Further information on equity-accounted investees is presented in note 12.

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

SUMMARISED FINANCIAL INFORMATION FOR SUBSIDIARIES WITH MATERIAL NON-CONTROLLING INTERESTS

EUR '000 COMPANY	2018				2017			
	NORDECON BETOON OÜ	KAURITS OÜ	SWENCN AB	TOTAL	NORDECON BETOON OÜ	KAURITS OÜ	SWENCN AB	TOTAL
Current assets	13,343	–	–	**13,343**	14,978	636	1,442	**17,056**
Non-current assets	526	–	–	**526**	389	1,824	0	**2,213**
Current liabilities	10,064	–	–	**10,064**	11,618	1,503	1,434	**14,555**
Non-current liabilities	52	–	–	**52**	49	466	2,135	**2,650**
Equity	3,753	–	–	**3,753**	3,700	491	-2,127	**2,064**
Revenue	60,649	–	–	**60,649**	52,868	4,955	7,744	**65,567**
Profit	1,654	–	–	**1,654**	2,440	-348	-2,247	**-155**
Non-controlling interests' share of profit	794	–	–	**794**	1,171	-118	-899	**154**
Interest held by non-controlling interests %	48%	–	–		48%	34%	40%	
Cash flows used in operating activities	-130	–	–	**-130**	2,684	361	-3,147	**-102**
Cash flows used in financing activities	-1,624	–	–	**-1,624**	-2,324	-369	2,087	**-606**
Cash flows used in investing activities	-235	–	–	**-235**	100	0	0	**100**
Net cash flow	-1,989	–	–	**-1,989**	460	-8	-1,060	**-608**

At 31 December 2018, non-controlling interests in the Group's equity totalled 2,021 thousand euros (31 December 2017: 1,351 thousand euros), of which non-controlling interests in Nordecon Betoon OÜ accounted for 1,808 thousand euros (31 December 2017: Nordecon Betoon OÜ 1,782 thousand euros, Kaurits OÜ 293 thousand euros and SWENCN AB -893 thousand euros). The remaining non-controlling interests, none of which is individually material for the Group, totalled 213 thousand euros (31 December 2017: 169 thousand euros).

NOTE 7.
CHANGES IN GROUP STRUCTURE

MERGER OF SUBSIDIARIES

In August 2018, the merger of Nordecon AS's wholly-held subsidiaries Eurocon Vara OÜ and Eurocon OÜ was finalised. In the transaction, Eurocon Vara OÜ was the acquirer and Eurocon OÜ the acquiree. The merger was entered in the Commercial Register on 7 August 2018. The combined entity continues to operate under the name of Eurocon OÜ.

NAME CHANGE OF A SUBSIDIARY

In September 2018, the business name of Nordecon Betoon OÜ's wholly-held Finnish subsidiary Estcon OY was changed for NOBE Rakennus OY. The purpose of the name change was to adopt the same trade name, NOBE, which Nordecon Betoon OÜ uses in Estonia.

ACQUISITION OF INTERESTS

OÜ Kaurits

In October 2018, Nordecon AS acquired a 34% non-controlling interest in its subsidiary OÜ Kaurits in which it already held a 66% stake. The purpose of the transaction was to improve construction management efficiency in the Infrastructure segment. After the transaction, OÜ Kaurits is a wholly-held subsidiary of Nordecon AS.

SWENCN OÜ

In December 2018, Nordecon AS acquired a 40% non-controlling interest in its subsidiary, SWENCN OÜ. SWENCN OÜ held 100% of the shares in SWENCN AB, a construction company belonging to Nordecon Group that is registered and provides general contractor's services in Sweden. The purpose of the transaction was to gain full ownership of a subsidiary that operates in a foreign market important for Nordecon AS. Through the transaction, SWENCN OÜ became a wholly-held subsidiary of Nordecon AS. After the acquisition of full ownership, Nordecon AS purchased from the subsidiary, SWENCN OÜ, 100% of the shares in SWENCN AB.

Technopolis-2 TOV

In December 2018, Nordecon AS's wholly-held subsidiary, Eurocon OÜ, acquired a 50% interest in an associate, Technopolis-2 TOV, registered in Ukraine in which Nordecon AS already had, through subsidiaries, a 50% stake. By the transaction, Nordecon AS became, through wholly-held subsidiaries, the sole owner of Technopolis-2 TOV. The purpose of the transaction was to gain full ownership of a development project on terms attractive for the Group.

NOTE 8.
CASH AND CASH EQUIVALENTS

EUR '000	31 DECEMBER 2018	31 DECEMBER2017
Current accounts	7,678	8,915
Total cash and cash equivalents	**7,678**	**8,915**

The amounts in current accounts are placed in overnight deposits with banks. In the reporting period, the interest rate of over-night deposits was 0.01% (2017: 0.01%). A significant share of the Group's current accounts are with the following banks: Swedbank AS, Luminor Bank AS and SEB Pank AS.

The Group's exposure to interest rate risk and a sensitivity analysis of the Group's financial assets and liabilities are disclosed in note 34.

NOTE 9.
TRADE AND OTHER RECEIVABLES

EUR '000	NOTE	31 DECEMBER 2018	31 DECEMBER 2017
CURRENT ITEMS			
Trade receivables	34	21,818	25,009
Retentions receivable	26, 34	1,085	950
Receivables from related parties	34, 37	2	19
Other receivables	34	26	275
Total receivables		**22,931**	**26,253**
Due from customers for contract work	26, 34	8,696	8,940
Total current trade and other receivables		**31,627**	**35,193**
NON-CURRENT ITEMS			
Loans to related parties	34, 37	7,780	8,492
Other non-current receivables	34	445	458
Total non-current trade and other receivables		**8,225**	**8,950**

Trade receivables are presented net of the impairment allowance, which at the year-end amounted to -5 thousand euros (31 December 2017: -9 thousand euros). Changes in the impairment allowance are disclosed in note 34.

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

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

Long-term loans to related parties comprise loans to the Ukrainian associates.

LONG-TERM LOANS PROVIDED TO THE UKRAINIAN ASSOCIATES

EUR '000 LOANS TO UKRAINIAN ASSOCIATES	NOTE	31 DECEMBER 2018	31 DECEMBER 2017
Loans provided including accrued interest	37	7,780	8,492
Of which Technopolis-2 TOV		-	938
V.I. Center TOV		7,780	7,554

The loan recognised in the statement of financial position as at 31 December 2018 was provided to the associate for the acquisition and development of real estate (a property). The property is located in Shastliv village near Kiev, next to the Kiev-Borispol motorway. The loan provided to V.I. Center TOV is secured with a mortgage of 7,000 thousand euros. The Group has invested in the associate together with other shareholders in proportion to its ownership interest. The associate's only liabilities are to its shareholders and each shareholder's receivable is proportionate to the shareholder's interest in the associate. The associate's main asset is the above property. Therefore, the carrying amount of the loan was measured based on the fair value of the property held by the associate, which qualifies as a level 3 measurement according to the fair value hierarchy provided in IFRS 13 *Fair Value Measurement*.

At 31 December 2018, the carrying amount of the loan was 7,780 thousand euros: loan principal and accrued interest totalled 10,694 thousand euros and prior period impairment losses amounted to 2,914 thousand euros. The loan was written down due to the slump in the Ukrainian economy and the weakening of the Ukrainian currency, which lowered the prices of, and demand for, commercial real estate.

According to management's estimates the associate will settle its loan liability to the Group after the sale of the development project, i.e. the property, which is expected to occur within the next 5 years. It is expected that during that time the value of the project will increase by 3%. The expectation is based on Ukraine's economic growth forecast for the coming years. According to management's estimates, the probability that the loan will not be recovered and will have to be written off in full is close to zero because the Group's interest in the associate is 44%, none of the shareholders has control of the associate and the property has been mortgaged for the benefit of Nordecon AS.

Based on a valuation report issued in 2018 by an independent internationally recognised appraiser that measured the fair value of the property, there was no need to recognise an additional impairment loss at 31 December 2018. According to the assessment of the Group's management, all assumptions applied in the valuation of the loan were realistic but due to the complicated situation of the Ukrainian economy the sensitivity of the value of the loan is higher than usual. Significant inputs estimated by management for the determination of the fair value of the property included the project's cash flows (expected rental prices), discount rates, the vacancy rates of the commercial premises to be rented out, and the time factor of the realisation of the project (delays in completion).

The key valuation inputs applied in the valuation of the property were as follows:

- a discount rate of 12.5%;
- a vacancy rate of 10-60%, depending on the purpose of use of the rental premises;
- rental prices of 11-19 euros per square metre or 40-294 euros per day, depending on the purpose of use of the rental premises;
- a forecast period of 2019-2026 plus the terminal year (growth 1.8%).

According to the sensitivity analysis (assuming that all other variables remain constant), the loan would have to be written down as follows:

- if rental prices decreased by 10% compared to the ones applied – by around 2,020 thousand euros;
- if the vacancy rate of the commercial premises rose by 5 percentage points – by around 1,945 thousand euros;
- if the discount rate rose by 1 percentage point – by around 1,244 thousand euros.
- if the completion of the development projects, taken as a whole, was deferred by 1 year – by around 131 thousand euros.

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.

NOTE 10. PREPAYMENTS

EUR '000	31 DECEMBER 2018	31 DECEMBER 2017
Prepayments to suppliers	788	891
Prepaid taxes	252	366
Prepaid expenses	343	385
Total prepayments	**1,383**	**1,642**

Prepayments to suppliers comprise prepayments for services of 632 thousand euros (2017: 766 thousand euros) and building materials of 156 thousand euros (2017: 125 thousand euros).

NOTE 11. INVENTORIES

EUR '000	31 DECEMBER 2018	31 DECEMBER 2017
Raw materials and consumables	3,560	2,802
Work in progress	6,434	5,788
Apartments for sale	707	3,700
Properties purchased for development and pre-development costs	9,743	10,940
Total inventories	**20,444**	**23,230**

In 2018, inventories of 12,873 thousand euros (2017: 10,570 thousand euros) were recognised in *Cost of sales*.

Raw materials and consumables comprise inventories acquired for construction and road maintenance operations. In the reporting and the comparative period, 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 2018	31 DECEMBER 2017
Capitalised pre-development costs	458	491
Properties purchased	9,285	10,449
Total	**9,743**	**10,940**
Of which borrowing costs	**865**	**1,200**

In 2018, capitalised borrowing costs accounted for 16% of the Group's total borrowing costs (2017: 27%).

Apartments for sale comprise the construction costs of apartments completed but not yet sold. In 2018 and 2017, 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 9,285 thousand euros (2017: 10,449 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 2018 and 2017, no properties (plots) acquired for development were written down. According to management's assessment, at 31 December 2018, properties purchased for development comprised properties of 2,273 thousand euros whose development will start within a year and properties of 7,012 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 36.

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 1,600 to 2,000 euros, depending on the location). A sensitivity analysis showed that if actual sales proceeds were 10% smaller (compared to the estimates), properties acquired for development would have to be written down by around 2,038 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 to the estimates), completed but unsold apartments would have to be written down by around 24 thousand euros.

NOTE 12.
INVESTMENTS IN EQUITY-ACCOUNTED INVESTEES

GENERAL INFORMATION ON EQUITY-ACCOUNTED INVESTEES

NAME AND TYPE OF INVESTEE		DOMICILE	GROUP'S INTEREST 31 DECEMBER 2018	GROUP'S INTEREST 31 DECEMBER 2017	CORE BUSINESS
V.I. Center TOV	Associate	Ukraine	44%	44%	Real estate development
Technopolis-2 TOV (note 7)	Associate	Ukraine	–	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

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	2018	2017
Total investments in equity-accounted investees at beginning of period	**1,888**	**1,640**
Investments sold	0	-89
Profit under the equity method	835	485
Dividends received	-457	-148
Total investments in equity-accounted investees at end of period	**2,266**	**1,888**

FINANCIAL INFORMATION OF EQUITY-ACCOUNTED INVESTEES

2018

SUMMARY FINANCIAL INFORMATION OF ASSOCIATES PRESENTED AS SEPARATE COMPANIES

EUR '000 COMPANY	V.I.CENTER TOV	TEHNOPOLIS 2TOV	KASTANI KINNISVARA OÜ	EMBACH EHITUS OÜ	PIGIPADA OÜ	TOTAL
Current assets	328	–	15	7,299	1,443	**9,222**
Non-current assets	7,090	–	0	730	869	**8,138**
Current liabilities	22,596	–	45	5,234	114	**27,989**
Equity	-15,178	–	-31	2,584	2,199	**-10,426**
Revenue	0	–	0	30,122	8,808	**38,930**
Expenses	1,213	–	0	-28,995	-8,162	**-35,944**
Profit	1,213	–	0	1,127	646	**2,986**
Carrying amount of investment	0	–	0	1,189	1,077	**2,266**

The Group does not have a binding commitment to restore the negative equity of the company in Ukraine. Therefore, a relevant provision has not been recognised. At 31 December 2018, V.I. Center TOV's current liabilities to the Group amounted to 10,695 thousand euros (31 December 2017: 10,468 thousand euros). In the reporting period, expenses were reduced by foreign exchange gains. In the comparative period, foreign exchange losses accounted for a major share of expenses.

In December 2018, Nordecon AS's wholly-held subsidiary, Eurocon OÜ, acquired a 50% interest in the associate Technopolis-2 TOV, registered in Ukraine, in which Nordecon AS already had, through subsidiaries, a 50% stake. By the transaction, Nordecon AS became, through wholly-held subsidiaries, the sole owner of Technopolis-2 TOV.

2017

SUMMARY FINANCIAL INFORMATION OF ASSOCIATES PRESENTED AS SEPARATE COMPANIES

EUR '000 COMPANY	V.I.CENTER TOV	TEHNOPOLIS 2TOV	KASTANI KINNISVARA OÜ	EMBACH EHITUS OÜ	PIGIPADA OÜ	TOTAL
Current assets	308	49	15	5,482	1,339	**7,193**
Non-current assets	6,279	123	0	441	850	**7,693**
Current liabilities	22,110	2,908	45	3,888	136	**29,087**
Equity	-15,523	-2,736	-30	1,917	2,053	**-14,319**
Revenue	0	0	0	26,863	8,886	**35,749**
Expenses	-3,350	-551	20	-26,454	-8,139	**-38,474**
Loss/profit	-3,350	-551	20	409	747	**-2,725**
Carrying amount of investment	0	0	0	882	1,006	**1,888**

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 and Kastani Kinnisvara OÜ are accounted for off the statement of financial position until their equity is negative.

EUR '000	RECORDED IN 2018			RECORDED IN 2017		
	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	1,213	0	1,213	-1,474	0	-1,474
Technopolis-2 TOV	–	–	–	-276	0	-276
Kastani Kinnisvara OÜ	0	0	0	10	0	10
Embach Ehitus OÜ	518	518	0	188	188	0
Pigipada OÜ	316	316	0	366	366	0
Unigate OÜ	–	–	–	-69	-69	0
Total	**2,047**	**834**	**1,213**	**-1,255**	**485**	**-1,740**

NOTE 13. INVESTMENT PROPERTY

EUR '000	2018	2017
Investment property at 1 January	**4,929**	**4,929**
Sales of investment property	-1,382	0
Addition of investment property	1,979	0
Investment property at 31 December	**5,526**	**4,929**

In January 2018, the Group sold an investment property in Tartu. Sales proceeds amounted to 1,300 thousand euros.

In December 2018, Nordecon AS acquired an interest in the Ukrainian associate Technopolis-2 TOV. The entity's owns a property in Shastliv village near Kiev. Based on a valuation report issued in 2018 by an independent internationally recognised appraiser, at the date of the valuation the fair value of the property was 1,979 thousand euros. In connection with the revaluation of the property acquired through the transaction, the Group recognised a gain of 934 thousand euros (recognised in revenue).

The period's rental income on investment property amounted to 15 thousand euros (2017: 13 thousand euros) and direct property management expenses totalled 3 thousand euros (2017: 3 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 36.

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 15 thousand, 42 thousand and 45 thousand square metres and the areas of the buildings which will be built extend to 14 thousand, 20 thousand and 27 thousand square metres respectively. The construction price per square metre which was used as an input of the discounted cash flow method ranged from 420 to 700 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 premises, 5 euros per square metre for production premises and 6 euros per square metre for warehouses (including refrigerated warehouses). 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.

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

POTENTIAL IMPACT OF CHANGES IN ESTIMATES

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

- if rental prices decreased by 5% compared to the ones applied, the investment properties would have to be written down by around 1,337 thousand euros;
- if construction prices rose by 5% compared to the ones applied, the investment properties would have to be written down by around 920 thousand euros;
- if the discount rate rose by 1 percentage point, the investment properties would have to be written down by around 996 thousand euros.

NOTE 14.
PROPERTY, PLANT AND EQUIPMENT

EUR '000	LAND AND BUILDINGS	PLANT AND EQUIPMENT	OTHER ITEMS OF PP&E	ASSETS UNDER CONSTRUCTION	PREPAYMENTS	TOTAL
COST						
At 31 December 2016	**2,759**	**21,391**	**3,189**	**114**	**0**	**27,453**
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
At 31 December 2017	**2,759**	**22,682**	**4,606**	**128**	**50**	**30,225**
Additions	16	1,871	34	27	104	2,052
Disposals	-782	-559	-74	0	0	-1,415
Reclassification*	0	86	168	-23	-114	117
Effect of movements in exchange rates	0	0	0	0	0	0
At 31 December 2018	**1,993**	**24,080**	**4,734**	**132**	**40**	**30,979**
ACCUMULATED DEPRECIATION						
At 31 December 2016	**842**	**12,874**	**2,626**	**0**	**0**	**16,342**
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
At 31 December 2017	**942**	**13,920**	**2,797**	**0**	**0**	**17,659**
Depreciation for the year	87	1,714	174	0	0	1,975
Disposals	-354	-489	-106	0	0	-949
Effect of movements in exchange rates	0	5	1	0	0	6
At 31 December 2018	**675**	**15,150**	**2,866**	**0**	**0**	**18,691**
CARRYING AMOUNT						
At 31 December 2016	**1,917**	**8,517**	**563**	**114**	**0**	**11,111**
At 31 December 2017	**1,817**	**8,762**	**1,809**	**128**	**50**	**12,566**
At 31 December 2018	**1,318**	**8,930**	**1,868**	**132**	**40**	**12,288**

* 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 36.

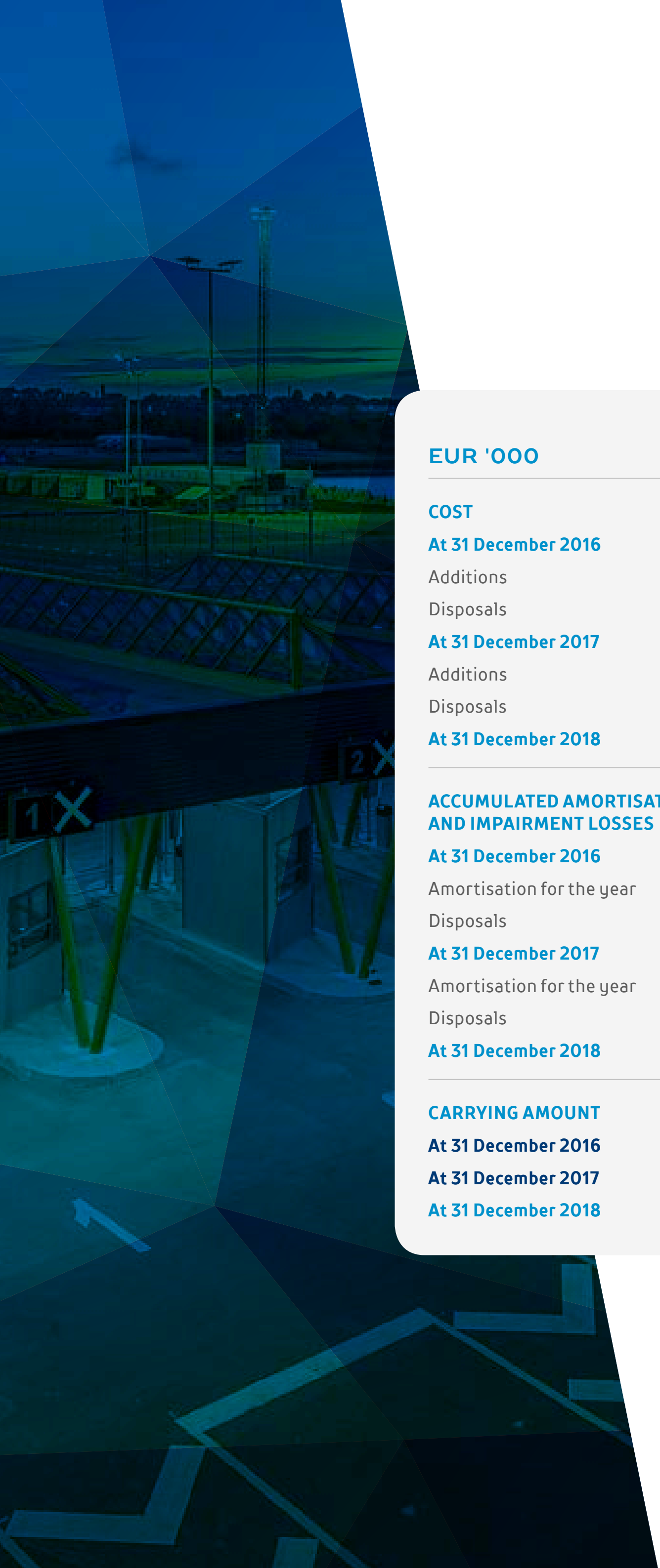
Proceeds from the sale of property, plant and equipment totalled 1,784 thousand euros (see the statement of cash flows). The largest item that was sold was a property with buildings located in Keila. Gain on the sale of property, plant and equipment totalled 1,113 thousand euros (2017: 1 thousand euros) (note 31).

Depreciation expense has been recognised in *Cost of sales* in an amount of 1,913 thousand euros (2017: 1,935 thousand euros) (note 29) and in *Administrative expenses* in an amount of 62 thousand euros (2017: 75 thousand euros) (note 30).

ASSETS HELD UNDER FINANCE LEASES (CARRIED IN PROPERTY, PLANT AND EQUIPMENT)

EUR '000	2018			2017		
	PLANT AND EQUIPMENT	OTHER ITEMS OF PP&E	TOTAL	PLANT AND EQUIPMENT	OTHER ITEMS OF PP&E	TOTAL
Cost at 31 December	13,586	326	13,912	14,247	677	14,924
Carrying amount at 31 December	7,450	165	7,615	7,816	287	8,103

In 2018, the Group signed new finance lease contracts of 1,399 thousand euros (2017: 1,922 thousand euros).



NOTE 15.
INTANGIBLE ASSETS

EUR '000	GOODWILL	SOFTWARE LICENCES	TRADE-MARKS	DEVELOPMENT EXPENDITURES	TOTAL
COST					
At 31 December 2016	**18,773**	**63**	**863**	**439**	**20,138**
Additions	0	24	0	4	28
Disposals	0	-5	0	0	-5
At 31 December 2017	**18,773**	**82**	**863**	**443**	**20,161**
Additions	0	50	0	0	50
Disposals	0	0	0	0	0
At 31 December 2018	**18,773**	**132**	**863**	**443**	**20,211**
ACCUMULATED AMORTISATION AND IMPAIRMENT LOSSES					
At 31 December 2016	**4,597**	**55**	**863**	**0**	**5,515**
Amortisation for the year	0	11	0	0	11
Disposals	0	-4	0	0	-4
At 31 December 2017	**4,597**	**62**	**863**	**0**	**5,522**
Amortisation for the year	0	15	0	0	15
Disposals	0	0	0	0	0
At 31 December 2018	**4,597**	**77**	**863**	**0**	**5,537**
CARRYING AMOUNT					
At 31 December 2016	**14,176**	**8**	**0**	**439**	**14,623**
At 31 December 2017	**14,176**	**20**	**0**	**443**	**14,639**
At 31 December 2018	**14,176**	**55**	**0**	**443**	**14,674**

Capitalised development expenditures result from preparations made for the extraction of sand from the seabed. The preparations will continue in 2019.

Amortisation has been recognised in *Administrative expenses* in an amount of 15 thousand euros (2017: 11 thousand euros) (note 30).

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 to the carrying amount of the investment in the subsidiary (including goodwill).

CARRYING AMOUNTS OF GOODWILL ALLOCATED TO THE SUBSIDIARIES

EUR '000

COMPANY	INTEREST 2018	INTEREST 2017	31 DECEMBER 2018	31 DECEMBER 2017
NORDECON AS				
Goodwill	–	–	8,206	8,206
Of which: Buildings			5,449	5,449
Infrastructure			2,757	2,757
SUBSIDIARIES				
Nordecon Betoon OÜ	52%	52%	181	181
Kaurits OÜ	100%	66%	2,022	2,022
AS Eston Ehitus	100%	100%	3,767	3,767
TOTAL			**14,176**	**14,176**

GENERAL ASSUMPTIONS FOR DETERMINING VALUE IN USE

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 2019–2022 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 48% and 52% respectively.
- The cost of debt was estimated based on the CGUs' actual loan interest rates, which ranged from 2.2% to 3.4%. 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 2019) 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 2019) 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 2019.
- 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 2019 and by applying to it growth rates suitable for subsequent years, estimated by reference to projections of the specific CGU's future operations.

NORDECON AS INFRASTRUCTURE	ASSUMPTIONS APPLIED
Forecast period	2019–2022 + terminal year
Discount rate	9.3%
Revenue change	2019: 2.0%, 2020–2022: compound annual growth rate (CAGR) 3.3%, terminal year: 1.1%
Gross margin	2019: based on budget, 2020–2022: forecast gradual growth to up to 6.2%, terminal year: 6.2%
Administrative expenses	See general assumptions, 2019–2022 and terminal year: 3.0% of revenue
Working capital	See general assumptions
Capital expenditures	See general assumptions

NORDECON AS BUILDINGS	ASSUMPTIONS APPLIED
Forecast period	2019–2022 + terminal year
Discount rate	9.5%
Revenue change	2019: 12.6%, 2020–2022: compound annual growth rate (CAGR) 3.3%, terminal year: 1.1%
Gross margin	2019: based on budget, 2020–2022: forecast gradual growth to up to 6.2%, terminal year: 6.2%
Administrative expenses	See general assumptions, 2019–2022 and terminal year: 3.0% of revenue
Working capital	See general assumptions
Capital expenditures	See general assumptions

NORDECON BETOON OÜ	ASSUMPTIONS APPLIED
Forecast period	2019–2022 + terminal year
Discount rate	9.3%
Revenue change	2019: -28.0%, 2020–2022: compound annual growth rate (CAGR) 3.3%, terminal year: 1.0%
Gross margin	2019: based on budget, 2020–2022: 7.0%, terminal year: 7.0%
Administrative expenses	See general assumptions, 2019–2022 and terminal year: 3.5% of revenue
Working capital	See general assumptions
Capital expenditures	See general assumptions

KAURITS OÜ	ASSUMPTIONS APPLIED
Forecast period	2019-2022 + terminal year
Discount rate	8.9%
Revenue change	2019: 38.0%, 2020-2022: compound annual growth rate (CAGR) 6.6%, terminal year: 1.0%
Gross margin	2019: based on budget, 2020-2022: forecast gradual growth to up to 8.0%, terminal year: 8.0%
Administrative expenses	See general assumptions, 2019-2022: ca 4.0% of revenue, terminal year: 3.0%
Working capital	See general assumptions
Capital expenditures	See general assumptions, 2019-2022: continuing renewal of machinery fleet.

ESTON EHITUS AS	ASSUMPTIONS APPLIED
Forecast period	2019-2022 + terminal year
Discount rate	9.2%
Revenue change	2019: 50%, 2020-2022: compound annual growth rate (CAGR) 4.3%, terminal year: 1.0%
Gross margin	2019: based on budget, 2019-2022: forecast gradual growth to up to 6.5%, terminal year: 6.5%
Administrative expenses	See general assumptions, 2019-2022: 2.0% of revenue, terminal year: 2.0% (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 2018 or in 2017.

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. Some differences between historical results and the assumptions used in the cash flow forecast may be attributable to projects that resulted in a significant loss or changes in in different market segments. 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, 3.5 percentage points for Nordecon AS Buildings 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 and Kaurits 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. 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, goodwill would not have to be written down.

NOTE 16. BORROWINGS

CURRENT BORROWINGS

EUR '000	NOTE	31 DECEMBER 2018	31 DECEMBER 2017
Overdraft liabilities		5,334	7,787
Current portion of non-current borrowings, of which:		2,389	2,761
Bank loans		634	1,117
Finance lease liabilities	17	1,755	1,644
Factoring liabilities		1,651	5,649
Total current borrowings		**9,374**	**16,197**

NON-CURRENT BORROWINGS

EUR '000	NOTE	31 DECEMBER 2018	31 DECEMBER 2017
Total non-current borrowings		17,219	16,716
Of which current portion		2,389	2,761
Non-current portion, of which:		**14,830**	**13,955**
Bank loans		2,828	4,122
Other long-term loans		0	9
Overdrafts		8,337	5,879
Finance lease liabilities	17	3,654	3,932
Derivative financial instruments		11	13

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 2018

EUR '000 LOAN TYPE	BASE CURRENCY	INTEREST RATE	UP TO 1 YEAR	1–2 YEARS	3–... YEARS	TOTAL LOAN	MATURITY DATE
Overdraft	EUR	Eonia +3.1%	0	2,421	0	2,421	31 January 2020
Overdraft	EUR	4%	5,334	0	0	5,334	30 May 2019
Overdraft	EUR	Eonia +3.1%	0	5,916	0	5,916	31 January 2020
Overdraft	EUR	6M EURIBOR+ 2.5%	0	0	0	0	31 December 2019
Investment loan	EUR	6M EURIBOR+ 3.2%	0	975	0	975	25 April 2020
Investment loan	EUR	6M EURIBOR+ 1.8%	36	3	0	39	25 January 2020
Investment loan	EUR	6M EURIBOR+ 4.0%	0	1,850	0	1,850	5 June 2021
Investment loan	EUR	4.25%	598	0	0	598	24 December 2019
Factoring liability	EUR	6M EURIBOR+2.5%	1,528	0	0	1,528	31 December 2019
Factoring liability	EUR	0%	123	0	0	123	31 December 2019
Total loans			**7,619**	**11,165**	**0**	**18,784**	

The overdraft facility with a maturity date of 30 May 2019 was extended in April 2019 until 20 May 2020.
The Group has to agree its dividend distributions with the banks which finance its operations.

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
Total loans			**14,553**	**10,007**	**3**	**24,563**	

RECONCILIATION OF FINANCIAL LIABILITIES TO CASH FLOWS:

EUR '000	NOTE	2018	2017
Balance of financial liabilities at beginning of period		**30,152**	**19,399**
Proceeds from loans received		2,898	9,207
Repayment of loans received		−4,671	−1,123
Finance lease principal paid	17	−1,879	−2,252
Addition of finance lease liabilities (new contracts)	17	1,723	2,118
Change in factoring liabilities		−3,998	5,649
Change in the value of derivatives		−2	8
Offsetting of loan liabilities against sales invoices		0	−2,849
Offsetting of finance lease liabilities against invoices for sales of property plant and equipment		−11	0
Effect of movements in exchange rates		−8	−5
Balance of financial liabilities at end of period		**24,204**	**30,152**

NOTE 17.
FINANCE AND OPERATING LEASES

FINANCE LEASES

THE GROUP AS A LESSEE

EUR '000	NOTE	2018	2017
Finance lease liabilities at beginning of year		**5,576**	**5,715**
Effect of movements in exchange rates		0	-5
Addition		1,723	2,118
Principal payments made		-1,890	-2,252
Finance lease liabilities at end of year, of which falling due:		**5,409**	**5,576**
Not later than 1 year	16	1,755	1,644
Later than 1 year and not later than 5 years	16	3,654	3,932
Base currency EUR		5,409	5,576
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		2.4%	2.3%
Interest expense of the period		95	159
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			2018			2017
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	1,857	103	1,755	1,756	112	1,644
Later than 1 year and not later than 5 years	3,793	138	3,654	4,073	141	3,932
Total	**5,650**	**241**	**5,409**	**5,829**	**253**	**5,576**

* 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	2018	2017
Cars	1,015	865
Construction equipment	3,870	3,534
Premises	713	742
IT equipment	370	332
Total operating lease expenses	**5,968**	**5,473**

UNDER EXISTING CONTRACTS, FUTURE OPERATING LEASE RENTALS ARE PAYABLE AS FOLLOWS:

EUR '000		31 DECEMBER 2018	31 DECEMBER 2017
Not later than 1 year	Future minimum lease rentals	975	1,514
Later than 1 year and not later than 5 years	Future minimum lease rentals	1,045	2,881

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 2018	31 DECEMBER 2017
Trade payables	34	25,738	26,824
Accrued expenses related to contract work	34	7,109	7,973
Payables to related parties	37	2,107	1,260
Total current trade payables		**34,954**	**36,057**
Trade payables	34	98	98
Total non-current trade payables		**98**	**98**

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 2018	31 DECEMBER 2017
Payables to employees	34	3,554	3,761
Taxes payable		1,565	1,832
Accrued expenses	34	26	50
Miscellaneous payables	34	42	11
Total current other payables		**5,187**	**5,654**
Miscellaneous payables	34	71	71
Total non-current other payables		**71**	**71**

TAXES PAYABLE

EUR '000	31 DECEMBER 2018	31 DECEMBER 2017
Value added tax	128	221
Personal income tax	438	426
Social security tax	743	864
Other taxes	256	321
Total taxes payable	**1,565**	**1,832**

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.

NOTE 20.
DEFERRED INCOME

EUR '000	NOTE	31 DECEMBER 2018	31 DECEMBER 2017
Due to customers for contract work	26	3,874	3,649
Advances received for goods and servces		58	2
Total deferred income		**3,932**	**3,651**

NOTE 21. PROVISIONS

EUR '000	31 DECEMBER 2018	31 DECEMBER 2017
Current provisions	1,013	533
Non-current provisions	969	1,273
Total provisions	**1,982**	**1,806**

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)	2018	2017
Opening balance	**1,249**	**1,166**
Provisions used and reversed	-906	-480
Provisions recognised	557	563
Closing balance, of which:	**900**	**1,249**
Current portion	482	400
Non-current portion	418	849

REHABILITATION PROVISIONS (EUR '000)	2018	2017
Opening balance	**466**	**118**
Provisions used and reversed	-25	-26
Provisions recognised	155	374
Closing balance, of which:	**596**	**466**
Current portion	45	42
Non-current portion	551	424

Rehabilitation provisions have been recognised for the post-closure costs of quarries used for the extraction of road construction materials. Rehabilitation provisions are used in accordance with the plans for closing the quarries.

OTHER PROVISIONS (EUR '000	2018	2017
Opening balance	**91**	**350**
Provisions recognised	474	47
Provisions used	-78	-306
Closing balance, of which:	**487**	**91**
Current portion	487	91
Non-current portion	0	0

Other provisions comprise provisions for resource charges, known legal costs and claims, and onerous construction contracts in progress. At 31 December 2018, the provision for onerous construction contracts amounted to 6 thousand euros. The Group started to apply IFRS 15 from 1 January 2018. At 31 December 2017, the losses recognised for onerous construction contracts in progress were reported in *Trade payables* in the statement of financial position. On the first-time application of IFRS 15, these were reclassified to *Provisions* in the statement of financial position.

NOTE 22. EQUITY

SHARE CAPITAL

EUR '000	2018	2017
At 1 January	18,263	19,720
Reduction of share capital	-1,942	-1,457
At 31 December	**16,321**	**18,263**

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 2017: 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 1,992 thousand euros (31 December 2017: 1,995 thousand euros). The change is attributable to the weakening of the Ukrainian and Swedish subsidiaries' functional currency against the euro.

DIVIDENDS

In 2018, the parent Nordecon AS distributed a dividend of 1,859 thousand euros (2017: 3,393 thousand euros) (note 5).

REDUCTION OF SHARE CAPITAL

On 23 May 2018 the annual general meeting of Nordecon AS adopted a resolution on the reduction of the company's share capital and on 14 September 2018 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 1,942 thousand euros, from 18,263 thousand euros to 16,321 thousand euros. Share capital was reduced by reducing the book value of the shares by 0.06 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 1,858 thousand euros (0.06 euros per share) was paid out to shareholders on 18 December 2018. 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.

	2018	2017
Profit for the year attributable to owners of the parent (EUR '000)	3,381	1,388
Weighted average number of shares (in thousands)	31,521	30,913
Basic earnings per share (EUR)	0.11	0.04
Diluted earnings per share (EUR)	0.11	0.04

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 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 plan, Nordecon AS granted options for acquiring a total of 1,618,755 ordinary shares in Nordecon AS. The options could be exercised when three years had passed since the signature of the option agreement but not before the company's general meeting had approved the company's annual report for 2016.

To satisfy the terms and conditions of the option plan, in July 2014 Nordecon AS issued a total of 1,618 thousand new shares with a total cost of 1,582 thousand euros, increasing share capital by 1,035 thousand euros to 20,692 thousand euros, and acquired the same number of own (treasury) shares at the same price.

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 adopted some amendments to the share option plan. The term for exercising a share option was extended. An option could be exercised within 15 months after the general meeting had approved Nordecon AS's annual report for 2016. In addition, the conditions for exercising the options granted to persons who at the grant date were members of the board were amended.

The annual general meeting which convened on 23 May 2018 adopted some amendments to the share option plan which grant Nordecon AS's chairman of the board the right to acquire up to 200,000 shares and each member of the board the right to acquire up to 129,500 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 general meeting has approved the company's annual report for 2020. Exercise of the options is linked to the achievement of the Group's EBITDA target for 2020 (from 6,083 thousand euros to 12,167 thousand euros).

At 31 December 2018, options for the acquisition of 229,857 shares had been exercised, options for the acquisition of 800,398 shares had expired and options for the acquisition of 588,500 shares were still exercisable.

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 (also includes the Group's 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 and 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.

2018

EUR '000	NOTE	BUILDINGS	INFRA-STRUCTURE	TOTAL
Total revenue		**162,909**	**60,138**	**223,047**
Inter-segment revenue		0	-52	-52
Revenue from external customers	28	**162,909**	**60,086**	**222,995**
Gross profit of the segment		**7,614**	**3,378**	**10,992**
Depreciation and amortisation		-143	-1,847	-1,990
Segment assets		**67,094**	**21,097**	**88,191**
Investments in equity-accounted investees		1,189	1,077	2,266
Capital expenditures		312	1,740	2,052

2017

EUR '000	NOTE	BUILDINGS	INFRA-STRUCTURE	TOTAL
Total revenue		**174,449**	**56,530**	**230,979**
Inter-segment revenue		-2	-195	-197
Revenue from external customers	28	**174,447**	**56,335**	**230,782**
Gross profit of the segment		**7,035**	**2,292**	**9,327**
Depreciation and amortisation		-131	-1,890	-2,021
Segment assets		**72,640**	**19,134**	**91,774**
Investments in equity-accounted investees		882	1,006	1,888
Capital expenditures		206	2,078	2,284

Revenue from both the National Road Administration in an amount of 28,421 thousand euros and the Centre for Defence Investment in an amount of 22,243 thousand euros, recognised using the stage of completion method, accounted for over 10% of the Group's revenue for 2018 (in 2017: from the Ministry of Defence of 23,148 thousand euros). Revenue from the Centre for Defence Investment is reported in the Buildings segment and revenue from the National Road Administration in the Infrastructure segment.

The revenue and gross profit of the Buildings segment include revenue and gross profit from the Group's own development activities, which in 2018 amounted to 9,369 thousand euros and 1,203 thousand euros respectively (2017: 6,533 thousand euros and 852 thousand euros respectively).

The Group's construction contract revenue for 2018 amounted to 206,674 thousand euros (2017: 221,468 thousand euros).

RECONCILIATION OF SEGMENT REVENUES

EUR '000	2018	2017
Total revenues for reportable segments	223,047	230,979
Elimination of inter-segment revenues	-52	-197
Unallocated revenue	501	605
Total consolidated revenue	**223,496**	**231,387**

RECONCILIATION OF SEGMENT PROFIT

EUR '000	2018	2017
Total profit for reportable segments	10,992	9,327
Unallocated loss	-959	-632
Consolidated gross profit	**10,033**	**8,695**
Unallocated expenses:		
Marketing and distribution expenses	-626	-623
Administrative expenses	-6,725	-6,936
Other operating income and expenses	1,349	-34
Consolidated operating profit	**4,031**	**1,102**
Finance income	431	2,901
Finance costs	-909	-1,570
Share of profit of equity-accounted investees	835	485
Consolidated profit before tax	**4,388**	**2,918**

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 2018	31 DECEMBER 2017
Total assets of reportable segments	97,613	105,357
Investments in equity-accounted investees	2,266	1,888
Inter-segment eliminations	-14	-95
Unallocated assets	4,272	4,828
Total consolidated assets	**104,137**	**111,978**

GEOGRAPHICAL INFORMATION

REVENUE (EUR '000)	2018	2017
Estonia	210,584	217,558
Ukraine	8,222	4,138
Finland	2,393	2,950
Sweden	3,246	7,744
Elimination of inter-segment revenues	-949	-1,003
Total revenue	**223,496**	**231,387**

ASSETS BASED ON GEOGRAPHICAL LOCATION* (EUR '000)	2018	2017
Estonia	30,446	32,090
Ukraine	2,042	45
Total assets	**32,488**	**32,135**

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

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

NOTE 26.
CONSTRUCTION CONTRACTS IN PROGRESS

FINANCIAL INFORMATION ON CONSTRUCTION CONTRACTS IN PROGRESS AT THE REPORTING DATE

CONSTRUCTION CONTRACTS IN PROGRESS FROM DATE OF COMMENCEMENT OF THE PROJECTS (EUR '000)	31 DECEMBER 2018	31 DECEMBER 2017
Contract costs recognised using the stage of completion method	103,621	137,272
Estimated gross profit	8,376	6,979
Contract revenue recognised using the stage of completion method	111,997	144,251
Progress billings	107,174	138,960
Difference between total progress billings and revenue recognised using stage of completion method	**-4,822**	**-5,291**
Of which due from customers (note 9)	8,696	8,940
Of which due to customers (note 20)	3,874	3,649

SIGNIFICANT CHANGES IN AMOUNTS DUE FROM AND DUE TO CUSTOMERS

(EUR '000)	DUE FROM CUSTOMERS	DUE TO CUSTOMERS
Balance at 1 January 2018	**8,940**	**3,649**
Revenue recognised during the period which at the beginning of the period was recognised in the balance of *Due to customers*	-	-3,649
Receivables recognised during the period which at the beginning of the period were recognised in the balance of *Due from customers*	-8,940	-
Remaining difference between revenue recognised and progress billings	8,696	3,874
Balance at 31 December 2018	**8,696**	**3,874**

At the reporting date, retentions receivable under construction contracts totalled 1,085 thousand euros (31 December 2017: 950 thousand euros) (note 9).

Out of the order book of 100,352 thousand euros as at 31 December 2018, 92% will realise in 2019 and 8% in 2020.

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.

NAME OF JOINT OPERATION	GROUP'S INTEREST		TOTAL VALUE OF CONTRACT	
EUR '000	2018	2017	2018	2017
WOHO commercial and residential building	50%	50%	12,663	11,828
Smarten logistics centre, phase III	50%	50%	3,913	3,798
Omniva logistics centre	50%	50%	10,002	10,106
Porto Franco commercial and business building, phase I	50%	–	7 164	–
HTR commercial and office building	50%	–	4,582	–

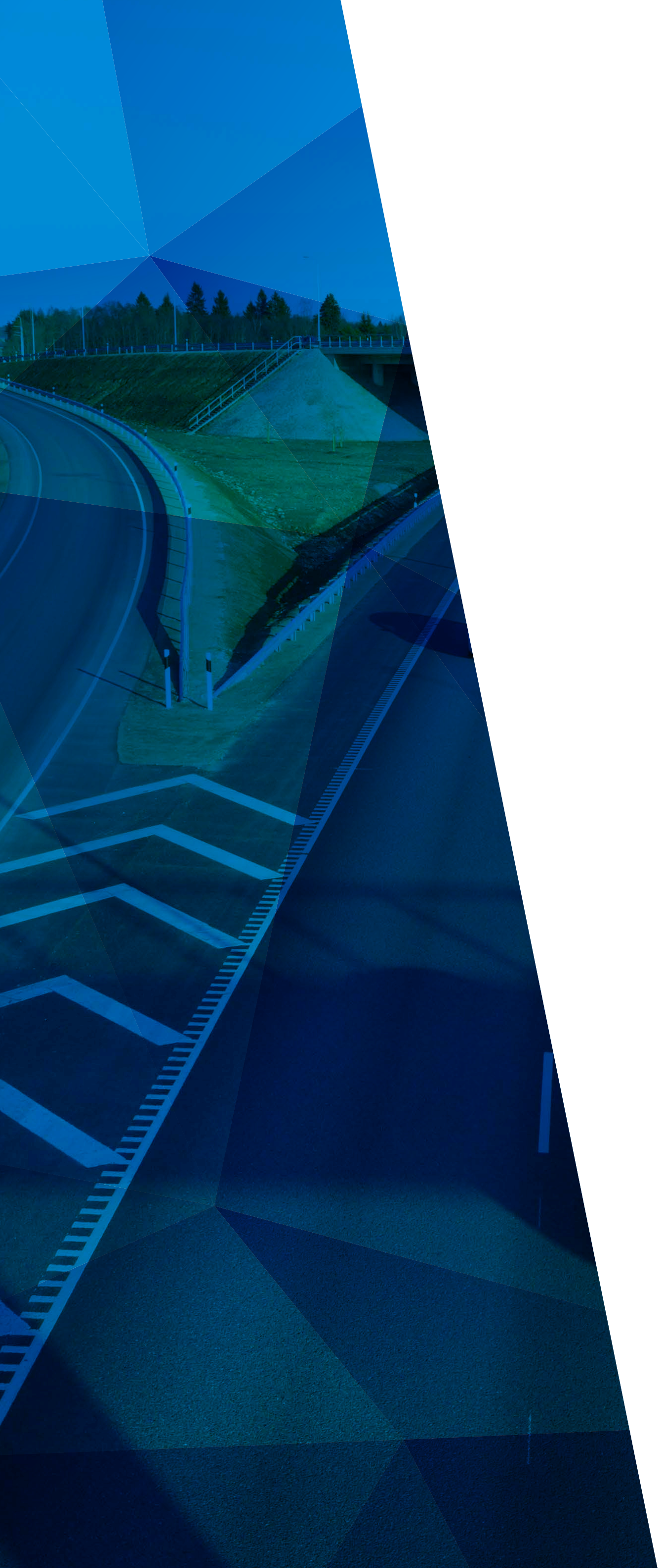
NOTE 28.
REVENUE

2018

EUR '000	BUILDINGS	INFRASTRUCTURE	TOTAL
Revenue from contracts with customers	**161,975**	**60,086**	**222,061**
Of which: general contracting services	148,913	52,234	201,147
subcontracting services	2,393	3,334	5,727
own development activities	9,369	0	9,369
road maintenance services	0	3,461	3,461
rental services	0	1,057	1,057
investment properties	1,300	0	1,300
Other revenue	**934**	**0**	**934**
Of which: investment property	934	0	934
Total revenue	**162,909**	**60,086**	**222,995**

2017

EUR '000	BUILDINGS	INFRASTRUCTURE	TOTAL
Revenue from contracts with customers			
Of which: general contracting services	164,975	50,052	215,027
subcontracting services	2,939	0	2,939
own development activities	6,533	0	6,533
road maintenance services	0	5,504	5,504
rental services	0	779	779
Total revenue	**174,447**	**56,335**	**230,782**



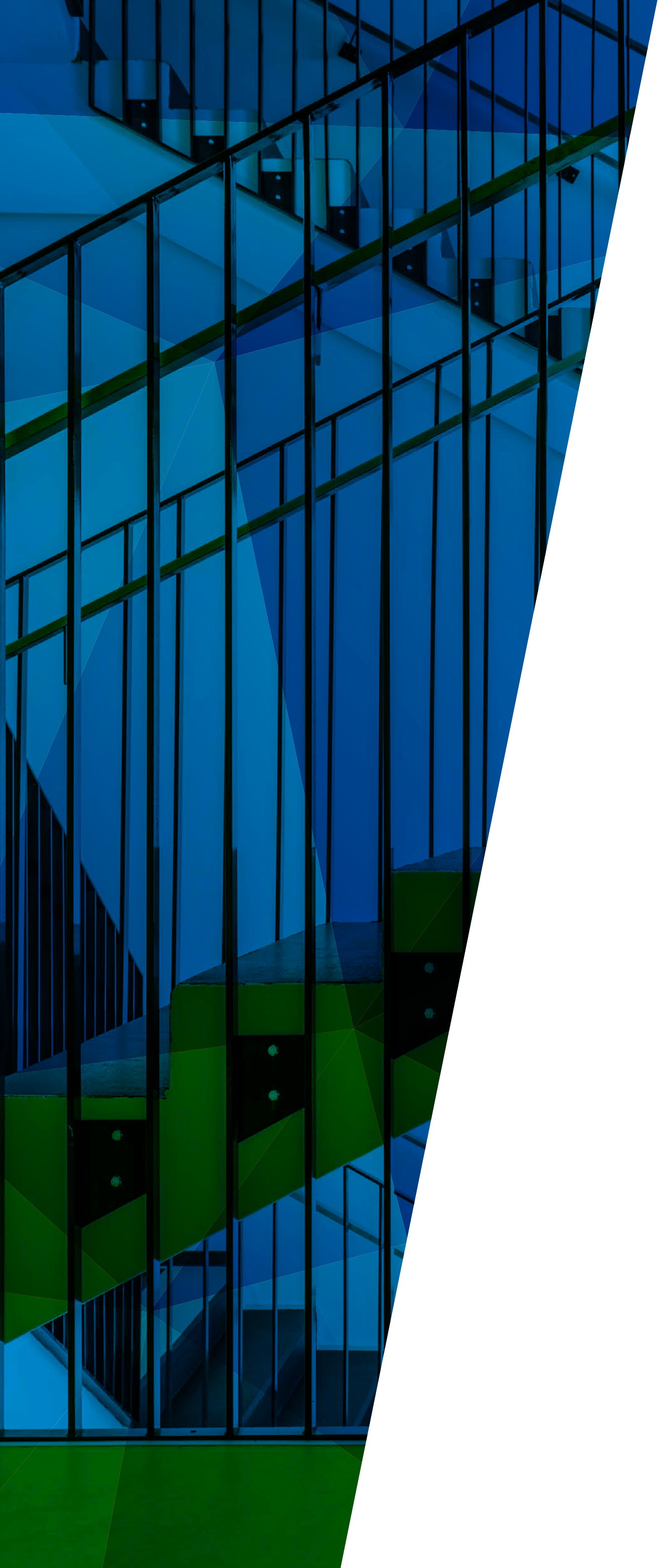
NOTE 29. COST OF SALES

EUR '000	2018	2017
Cost of materials, goods and services	192,133	202,127
Personnel expenses	19,175	18,521
Depreciation expense (note 14)	1,913	1,935
Other expenses	242	109
Total cost of sales	**213,463**	**222,692**

In 2018 the Group had, on average, 687 staff (2017: 735) of whom 649 were working under employment contracts, 20 were working under contracts under the law of obligations (excluding self-employed people) and 18 were members of legal persons' management or control bodies (2017: 679, 38 and 18 respectively).

NOTE 30. ADMINISTRATIVE EXPENSES

EUR '000	2018	2017
Cost of materials, goods and services	2,646	2,335
Personnel expenses	3,757	4,351
Depreciation and amortisation expense (notes 14 and 15)	77	86
Other expenses	245	164
Total administrative expenses	**6,725**	**6,936**



NOTE 31.
OTHER OPERATING INCOME AND EXPENSES

OTHER OPERATING INCOME

EUR '000	NOTE	2018	2017
Gain on sale of property, plant and equipment	14	1,113	1
Other income		358	106
Total other operating income		**1,471**	**107**

A significant share of the gain on sale of property, plant and equipment in 2018 resulted from the sale of a property with buildings in Keila of 951 thousand euros.

OTHER OPERATING EXPENSES

EUR '000	NOTE	2018	2017
Loss on sale and write-off of property, plant and equipment		10	10
Net loss on recognition and reversal of impairment losses on receivables	34	16	37
Foreign exchange loss		76	15
Other expenses		20	79
Total other operating expenses		**122**	**141**

NOTE 32.
FINANCE INCOME AND COSTS

FINANCE INCOME

EUR '000	2018	2017
Interest income on loans provided	278	372
Foreign exchange gain	147	0
Gain on disposal of investments in subsidiaries and a joint venture	0	2,513
Other finance income	6	16
Total finance income	**431**	**2,901**

Interest income on loans provided for the reporting period comprises interest income on loans provided to related parties (2017: 346 thousand euros) (note 37).

Foreign exchange gain comprises exchange gain on the translation of the loans received by the Ukrainian subsidiary in euros into the local currency of 147 thousand euros (2017: an exchange loss of 416 thousand euros).

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	2018	2017
Interest expense	781	655
Foreign exchange loss	121	451
Other finance costs	7	464
Total finance costs	**909**	**1,570**

The translation of the loan provided to the Swedish subsidiary in euros into the local currency gave rise to an exchange loss of 121 thousand euros (2017: 35 thousand euros), which is presented in *Foreign exchange loss.*

Other finance costs include a write-down of 448 thousand euros made in 2017 to the loans provided for the real estate projects of the Group's two Ukrainian associates. In 2018, the Group did not write down any loans.

NOTE 33.
INCOME TAX EXPENSE

EUR '000	%	2018	%	2017
Profit for the year		3,821		1,725
Income tax expense		-567		-1,193
Profit before tax		**4,388**		**2,918**
Income tax using the tax rate of the parent company	-4.15%	-182	-20.15%	-588
Income tax on dividends distributed by Estonian Group entities	-8.20%	-360	-19.71%	-575
Income tax in foreign jurisdictions	-0.57%	-25	-1.02%	-30
Total income tax expense	**-12.92%**	**-567**	**-40.88%**	**-1,193**

Under the Estonian Income Tax Act, the profits earned and losses incurred by companies operating in Estonia are not subject to income tax. In 2018, 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 2018, the Group's Estonian subsidiaries paid a net dividend of 1,900 thousand euros, which gave rise to income tax expense of 400 thousand euros (2017: 2,300 thousand euros and 575 thousand euros respectively). The share of dividends paid to non-controlling interests amounted to 768 thousand euros (2017: 1,104 thousand euros).

NOTE 34.
FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

CREDIT RISK

THE GROUP'S MAXIMUM CREDIT RISK EXPOSURE AT THE REPORTING DATE

EUR '000	NOTE	2018	2017
Cash and cash equivalents	8	7,678	8,915
Trade receivables	9	21,818	25,009
Retentions receivable	9	1,085	950
Receivables from related parties	9	2	19
Loans to related parties	9	7,780	8,492
Other receivables	9	471	733
Due from customers for contract work	9	8,696	8,940
Total		**47,530**	**53,058**

Receivables from third parties and loans to related parties are unsecured except for the loan provided to V.I. Center TOV which is secured with the property held by the entity (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. Swedbank AS and SEB Pank AS 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 Aa2. Luminor Bank AS has Moody's credit rating Ba1.

FINANCIAL ASSETS BY GEOGRAPHICAL ORIGIN AT THE REPORTING DATE

EUR '000	2018	2017
Estonia	36,628	42,541
Ukraine	9,411	8,582
Sweden	580	1,174
Lithuania	9	12
Finland	902	749
Total	**47,530**	**53,058**

AGEING OF TRADE RECEIVABLES AND ASSOCIATED IMPAIRMENT ALLOWANCES AT THE REPORTING DATE

EUR '000	31 DECEMBER 2018		31 DECEMBER 2017	
	TRADE RECEIVABLES	IMPAIRMENT ALLOWANCE	TRADE RECEIVABLES	IMPAIRMENT ALLOWANCE
Not past due	17,439	0	22,779	0
0–30 days past due	2,357	0	1,639	0
31–180 days past due	1,295	0	432	0
Over 180 days past due *	731	–5	168	–9
Total	**21,822**	**–5**	**25,018**	**–9**

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

CHANGES IN THE IMPAIRMENT ALLOWANCE FOR RECEIVABLES

EUR '000	2018	2017
Impairment allowance at 1 January	–9	–82
Impairment losses recognised during the year	–16	–37
Items written off as uncollectible during the year	20	110
Impairment allowance at 31 December	**–5**	**–9**

In 2018, recognition of impairment losses on receivables and recovery of previously impaired items gave rise to a net loss of 16 thousand euros (2017: a net loss of 37 thousand euros) (note 31). Items written down comprise a number of small receivables.

During the year, receivables of 20 thousand euros that had been written down in earlier periods were written off as uncollectible (2017: 110 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 2018

FINANCIAL LIABILITY*	CARRYING AMOUNT	CONTRACTUAL CASH FLOWS	UP TO 6 MONTHS	6–12 MONTHS	1–2 YEARS	MORE THAN 3 YEARS
Overdraft liabilities (note 16)	13,671	14,044	5,423	0	8,621	0
Bank and other loans (note 16)	3,462	3,716	181	479	3,056	0
Finance lease liabilities (note 17)	5,409	5,650	1,004	853	2,857	936
Factoring liabilities (note 16)	1,651	1,689	1,689	0	0	0
Trade payables (note 18)	35,052	35,052	31,115	3,839	98	0
Other payables (note 19)	3,693	3,693	3,622	0	71	0
Total	**62,938**	**63,844**	**43,034**	**5,171**	**14,703**	**936**

EUR '000 — 31 DECEMBER 2017

FINANCIAL LIABILITY*	CARRYING AMOUNT	CONTRACTUAL CASH FLOWS	UP TO 6 MONTHS	6–12 MONTHS	1–2 YEARS	MORE THAN 3 YEARS
Overdraft liabilities (note 16)	13,666	13,908	7,882	0	6,026	0
Bank and other loans (note 16)	5,248	5,518	194	983	4,341	0
Finance lease liabilities (note 17)	5,576	5,829	964	792	1,459	2,614
Factoring liabilities (note 16)	5,649	5,792	5,792	z0	0	0
Trade payables (note 18)	36,155	36,155	32,340	3,717	98	0
Other payables (note 19)	3,893	3,893	3,822	0	71	0
Total	**70,187**	**71,095**	**50,994**	**5,492**	**11,995**	**2,614**

* 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 will be settled before maturity or that cash flows will differ from contractual ones.

AT THE REPORTING DATE THE GROUP HAD ACCESS TO THE FOLLOWING OVERDRAFT AND FACTORING FACILITIES:

- an overdraft facility of 135 thousand euros with a fixed interest rate of 4.0% per year;
- an overdraft facility of 1,230 thousand euros with an interest rate of EONIA plus 3.1% per year.

In addition to overdraft facilities, the Group had a factoring arrangement with a limit of 1,184 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	2018	2017
Estonia	57,468	67,282
Ukraine	2,801	350
Sweden	222	1,055
Lithuania	1	1
Finland	339	266
Total	**60,831**	**68,954**

The Group has 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 financial institution may use the Group's limit, which extends to 700 thousand euros. At 31 December 2018, 295 thousand euros of this was in use (31 December 2017: the limit was 1,000 thousand euros and 557 thousand euros was in use).

GUARANTEE COMMITMENTS ACCOUNTED FOR OFF THE STATEMENT OF FINANCIAL POSITION

At the reporting date, banks had issued on behalf of the Group construction-related guarantees of 32,653 thousand euros (2017: 36,275 thousand euros). The maturities of the guarantees extend to 2023. According to management's estimates, at the reporting date the risk that the guarantees will be called upon was low. In the reporting period, one guarantee issued by a bank was realised in an amount of 202 thousand euros. It was a warranty obligations guarantee issued in connection with the construction of the Stroomi Keskus shopping centre. In previous periods (2015–2017) no bank guarantees issued on behalf of the Group were called on due to the breach of obligations arising from construction activities.

REFINANCING OF CURRENT FINANCIAL LIABILITIES IN 2019

Based on the financing plan in place, the Group believes that in 2019 loan liabilities of 5,118 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

	31 DECEMBER 2018		
'000	EUR	SEK	UAH
Cash and cash equivalents	7,144	5,297	559
Current receivables	31,152	1,930	52,920
Non-current receivables	8,225	0	0
Total	**46,521**	**7,227**	**53,479**
Current liabilities	49,714	5,614	132,734
Non-current liabilities	15,981	0	0
Total	**65,695**	**5,614**	**132,734**
Net exposure	**-19,174**	**1,613**	**-79,255**

	31 DECEMBER 2017		
'000	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
Total	**53,275**	**13,009**	**3,425**
Current liabilities	59,841	14,119	27,349
Non-current liabilities	15,396	0	0
Total	**75,237**	**14,119**	**27,349**
Net exposure	**-21,962**	**-1,110**	**-23,924**

THE FOLLOWING EXCHANGE RATES APPLIED AGAINST THE EURO AT THE REPORTING DATE:

	DATE	SWEDISH KRONA (SEK)	UKRAINIAN HRYVNIA (UAH)
1 euro (EUR)	31 December 2018	10.2548	31.7141
1 euro (EUR)	31 December 2017	9.8438	33.4954

POTENTIAL IMPACT OF CHANGES IN ESTIMATES

The Group estimated 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 2018	31 DECEMBER 2017
Strengthening of euro by 10%	213	77
Weakening of euro by 10%	-260	-94

INTEREST RATE RISK

THE INTEREST RATE PROFILE OF THE GROUP'S INTEREST-BEARING FINANCIAL INSTRUMENTS AT THE REPORTING DATE

EUR '000	2018	2017
Financial instruments with a fixed interest rate		
Financial assets (loans provided to related parties and legal persons) (note 9)	7,780	8,492
Financial liabilities (note 16)	5,932	6,325
Net exposure	**1,848**	**2,167**
Financial instruments with a floating interest rate		
Financial assets (cash and cash equivalents) (note 8)	7,678	8,915
Financial liabilities (including finance lease liabilities) (notes 16 and 17)	18,138	23,814
Net exposure	**-10,460**	**-14,899**

VARIABLE COMPONENTS OF THE FLOATING INTEREST RATES OF INTEREST-BEARING BORROWINGS AT THE REPORTING DAT

	31 DECEMBER 2018	31 DECEMBER 2017
3 month EURIBOR	-0.309%	-0.329%
6 month EURIBOR	-0.237%	-0.271%
EONIA	-0.356%	-0.346%
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 265 thousand euros (2017: 292 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

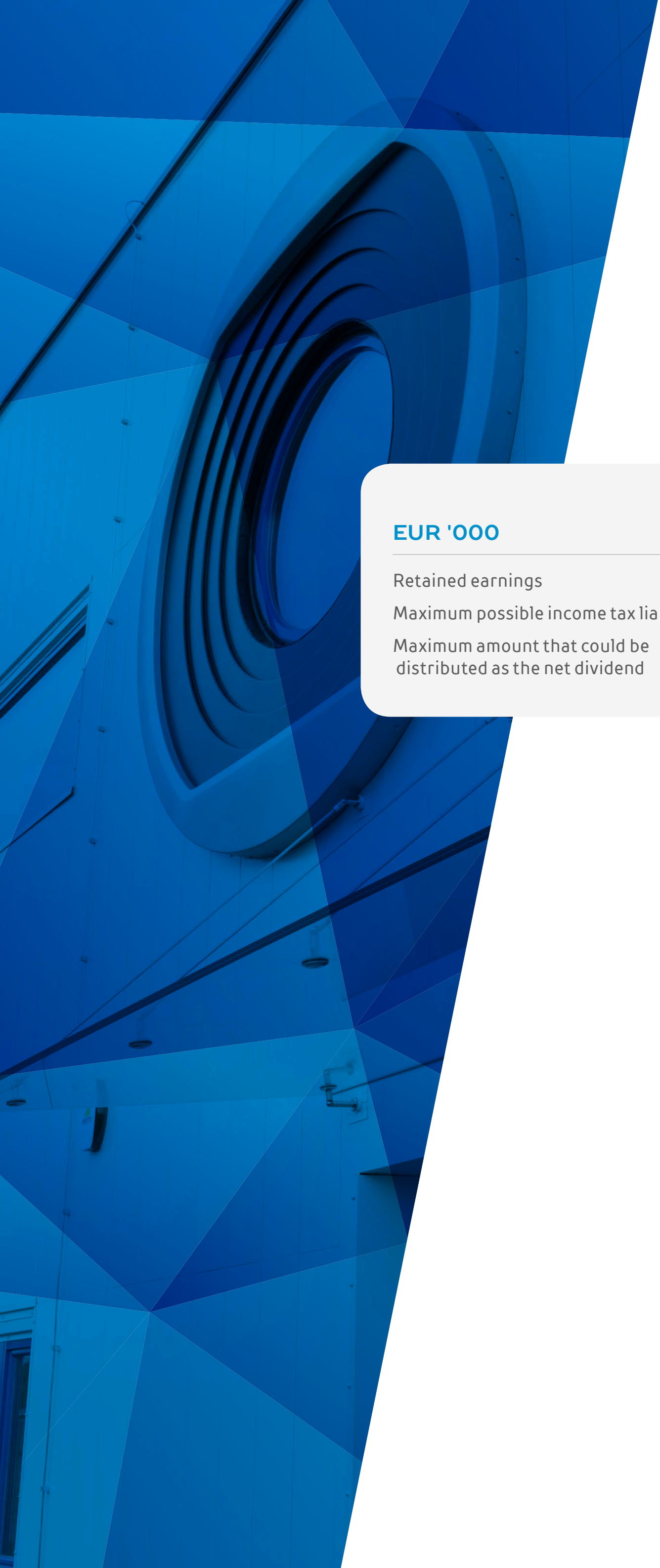
EUR '000	2018 CARRYING AMOUNT	2018 FAIR VALUE	2017 CARRYING AMOUNT	2017 FAIR VALUE
Cash and cash equivalents (note 8)	7,678	7,678	8,915	8,915
Trade receivables (note 9)	21,818	21,818	25,009	25,009
Retentions receivable (note 9)	1,085	1,085	950	950
Due from customers (note 9)	8,696	8,696	8,940	8,940
Receivables from related parties (notes 9, 35)	2	2	19	19
Loans to related parties (notes 9, 35)	7,780	7,780	8,492	8,492
Other receivables (note 9)	471	471	733	733
Overdraft liabilities (note 16)	-13,671	-13,671	-13,666	-13,666
Bank and other loans (note 16)	-3,473	-4,084	-5,248	-5,285
Finance lease liabilities (notes 16, 17)	-5,409	-5,409	-5,576	-5,576
Factoring liabilities (note 16)	-1,651	-1,651	-5,649	-5,649
Trade payables (note 18)	-32,945	-32,945	-34,895	-34,895
Payables to related parties (notes 18, 35)	-2,107	-2,107	-1,260	-1,260
Other payables (note 19)	-3,693	-3,693	-3,893	-3,893

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 a property held by the associate. 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 belong to level 3 (note 5).

NON-CURRENT FIXED-INTEREST FINANCIAL ASSETS AND LIABILITIES WERE DISCOUNTED USING THE FOLLOWING INTEREST RATES:

	2018	2017
Loans received*	1.91%	2.17%

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



NOTE 35. CONTINGENT LIABILITIES

CONTINGENT INCOME TAX LIABILITY

EUR '000	31 DECEMBER 2018	31 DECEMBER 2017
Retained earnings	10,896	11,086
Maximum possible income tax liability	-2,165	-2,217
Maximum amount that could be distributed as the net dividend	8,731	8,869

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. As at 31 December 2018, the maximum possible income tax liability for 2019 was calculated by applying a 14% tax rate (calculated as 14/86 of the net distribution) to a dividend extending to one third of profit distributed and taxed in 2018 and a 20% tax rate (calculated as 20/80 of the net distribution) to the remainder of unrestricted equity. At 31 December 2017, the maximum possible income tax liability was calculated by applying a 20% tax rate (calculated as 20/80 of the net distribution).

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 32,653 thousand euros (31 December 2017: 36,275 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 91 thousand euros (31 December 2017: 331 thousand euros).

BENEFITS PAYABLE TO MEMBERS OF THE BOARD ON THE EXPIRY OF THEIR SERVICE CONTRACTS

Under their service contracts, members of the board are eligible to termination benefits when their service contracts expire (for a member of the board in an amount of up to six-fold and for the chairman of the board in an amount of up to 12-fold average monthly service fee including performance-related pay). In addition, members of the board will be paid benefits for observing the prohibition on competition after their service contracts expire (for a member of the board up to six-fold and for the chairman of the board up to 12-fold average monthly service fee together with performance-related pay). The payment of the 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. At 31 December 2018, the maximum contingent liability that could have arisen from the obligation to pay termination benefits and benefits for observing the prohibition on competition amounted to 626 thousand euros.

NOTE 36.
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 2017: 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 18,736 thousand euros (31 December 2017: 23,842 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 2018	31 DECEMBER 2017
Inventories	9,344	12,500
Investment property	639	2,589
Property, plant and equipment (land and buildings)	767	767
Mortgages that cannot be linked to a specific asset class*	7,986	7,986
Total	**18,736**	**23,842**

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

SHARE PLEDGES

In 2018 and 2017, the Group's borrowings were secured with a pledge of its shares in Tariston AS (100%).

NOTE 37.
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	2018		2017	
COUNTERPARTY	PURCHASES	SALES	PURCHASES	SALES
AS Nordic Contractors	276	0	314	0
Companies of AS Nordic Contractors group	4	8	3	5
Companies related to owners of AS Nordic Contractors	655	0	677	0
Associates	5,575	200	3,629	279
Companies related to members of the council	93	0	85	0
Total	**6,603**	**208**	**4,708**	**284**

EUR '000	2018		2017	
NATURE OF TRANSACTIONS	PURCHASES	SALES	PURCHASES	SALES
Construction services	4,794	14	3,629	0
Transactions with goods	1,436	164	677	0
Lease and other services	290	30	319	26
Other transactions	83	0	83	258
Total	**6,603**	**208**	**4,708**	**284**

RECEIVABLES FROM AND LIABILITIES TO RELATED PARTIES AT PERIOD-END (NOTES 9 AND 18)

EUR '000	31 DECEMBER 2018 RECEIVABLES	31 DECEMBER 2018 LIABILITIES	31 DECEMBER 2017 RECEIVABLES	31 DECEMBER 2017 LIABILITIES
AS Nordic Contractors	0	10	0	8
Companies related to owners of AS Nordic Contractors	0	164	0	27
Associates – receivables and liabilities	2	2,097	19	1,225
Associates – loans and interest	7,780	0	8,492	0
Total	**7,782**	**2,271**	**8,511**	**1,260**

Receivables from and liabilities to associates result from ordinary business operations. Receivables and liabilities are settled on time.

LOAN PRINCIPAL AND ACCRUED INTEREST RECEIVABLE FROM RELATED PARTIES (NOTE 34)

EUR '000	RELATED PARTY	INTEREST RATE	CURRENCY	31 DECEMBER 2018 LOAN	31 DECEMBER 2018 OF WHICH INTEREST	31 DECEMBER 2017 LOAN	31 DECEMBER 2017 OF WHICH INTEREST
Technopolis-2 TOV	Associate	6,5%	EUR	–	–	938	136
V.I. Center TOV	Associate	3,0%	EUR	7,780	699	7,554	465
Total				**7,780**	**699**	**8,492**	**601**
Of which non-current portion (note 9)				7,780	699	8,492	601

During the period, the Group recognised interest income on loans to associates of 269 thousand euros (2017: 268 thousand euros), on loans to joint ventures of nil euros (2017: 68 thousand euros) and on a loan to a company of AS Nordic Contractors group of nil euros (2017: 10 thousand euros) (note 31). The loans provided to related parties are not secured except for the loan provided to V.I. Center TOV (note 9).

OTHER TRANSACTIONS WITH RELATED PARTIES

In the reporting period, the Group paid Nõmme Private Education Foundation sponsor support of 83 thousand euros (2017: 83 thousand euros). The foundation is related to a member of the Group's council.

In 2018, the Group received from associates a net dividend of 456 thousand euros (2017: 148 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 2018 amounted to 187 thousand euros and associated social security charges totalled 62 thousand euros. In 2017, the corresponding figures were 167 thousand euros and 55 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 656 thousand euros and associated social security charges totalled 217 thousand euros. In 2017, the corresponding figures were 1,001 thousand euros and 330 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.

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

NOTE 38.
PARENT COMPANY'S PRIMARY FINANCIAL STATEMENTS

Under the Estonian Accounting Act, the primary financial statements of the consolidating entity (parent company) have to be disclosed in the notes to the consolidated financial statements. In preparing the primary financial statements of the parent, the same accounting policies are used as in preparing the consolidated financial statements, except that investments in subsidiaries, joint ventures and associates are measured at cost less any impairment losses.

EUR '000	31 DECEMBER 2018	31 DECEMBER 2017
ASSETS		
Current assets		
Cash and cash equivalents	3,743	4,549
Trade and other receivables	15,930	22,265
Prepayments	683	474
Inventories	11,454	11,893
Total current assets	**31,810**	**39,181**
Non-current assets		
Investments in subsidiaries	11,905	12,203
Investments in associates and joint ventures	1,189	882
Investment property	0	1,380
Trade and other receivables	16,715	15,647
Property, plant and equipment	4,782	5,505
Intangible assets	8,234	8,205
Total non-current assets	**42,825**	**43,822**
TOTAL ASSETS	**74,635**	**83,003**

EUR '000	31 DECEMBER 2018	31 DECEMBER 2017
LIABILITIES		
Current liabilities		
Borrowings	8,180	13,932
Trade payables	16,708	21,881
Taxes payable	680	649
Other payables	6,492	6,721
Deferred income	2,688	1,762
Provisions	798	377
Total current liabilities	**35,546**	**45,322**
Non-current liabilities		
Borrowings	11,142	8,681
Other payables	11	13
Provisions	329	770
Total non-current liabilities	**11,482**	**9,464**
TOTAL LIABILITIES	**47,028**	**54,786**
EQUITY		
Share capital	16,321	18,263
Own (treasury) shares	-693	-1,349
Share premium*	1,186	1,158
Statutory capital reserve	2,534	2,534
Retained earnings	8,259	7,611
TOTAL EQUITY	**27,607**	**28,217**
TOTAL LIABILITIES AND EQUITY	**74,635**	**83,003**

* 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	2018	2017
Revenue	116,009	137,033
Cost of sales	-111,236	-133,369
Gross profit	**4,773**	**3,664**
Marketing and distribution expenses	-379	-359
Administrative expenses	-3,781	-4,117
Other operating income	1,358	89
Other operating expenses	-49	-67
Operating profit/loss	**1,922**	**-790**
Finance income	2,177	4,422
Finance costs	-1,285	-1,011
Net finance income	**892**	**3,411**
Profit before income tax	**2,814**	**2,621**
Income tax expense	**-182**	**-588**
Profit for the year	**2,632**	**2,033**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**2,632**	**2,033**

STATEMENT OF CASH FLOWS

EUR '000	2018	2017
Cash flows from operating activities		
Cash receipts from customers[5]	145,351	162,935
Cash paid to suppliers[6]	-129,484	-155,497
Cash paid to and for employees	-10,705	-10,583
VAT paid	-3,732	-2,434
Income tax paid	-182	0
Net cash from/used in operating activities	**1,248**	**-5,579**
Cash flows from investing activities		
Paid on acquisition of non-current assets	-74	-39
Proceeds from sale of non-current assets	1,630	0
Proceeds from sale of investment property	1,300	0
Capital contributions to subsidiaries and joint ventures	-19	0
Paid on acquisition of subsidiaries	-4	0
Disposal of a joint venture	0	2,744
Loans provided	-1,349	-2,455
Repayment of loans provided	0	1,711
Interest received	60	364
Dividends received	1,343	1,196
Net cash from investing activities	**2,887**	**3,521**

[5] Line item *Cash receipts from customers* includes VAT paid by customers.
[6] Line item *Cash paid to suppliers* includes VAT paid.

EUR '000	2018	2017
Cash flows from financing activities		
Proceeds from loans received	2,892	8,994
Repayment of loans received	-2,808	-1,078
Payment of finance lease principal	-782	-865
Interest paid	-537	-494
Dividends paid	-1,859	-3,393
Reduction of share capital	-1,847	-1,384
Sale of own shares	0	153
Net cash used in/from financing activities	**-4,941**	**1,933**
Net cash flow	**-806**	**-125**
Cash and cash equivalents at beginning of year	4,549	4,674
Decrease in cash and cash equivalents	-806	-125
Cash and cash equivalents at end of year	**3,743**	**4,549**

STATEMENT OF CHANGES IN EQUITY

EUR '000	SHARE CAPITAL	OWN SHARES	SHARE PREMIUM	STATUTORY CAPITAL RESERVE	RETAINED EARNINGS	TOTAL
BALANCE AT 31 DECEMBER 2016	**19,720**	**-1,550**	**1,133**	**2,534**	**8,971**	**30,808**
Profit for the year	0	0	0	0	2,033	2,033
Exercise of share options	0	153	0	0	0	153
Dividend distribution	0	0	0	0	-3,393	-3,393
Reduction of share capital	-1,457	48	25	0	0	-1,384
BALANCE AT 31 DECEMBER 2017	**18,263**	**-1,349**	**1,158**	**2,534**	**7,611**	**28,217**
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
ADJUSTED UNCONSOLIDATED EQUITY AT 31 DECEMBER 2017	**-**		**-**	**-**	**-**	**22,969**
BALANCE AT 31 DECEMBER 2017	**18,263**	**-1,349**	**1,158**	**2,534**	**7,611**	**28,217**
Profit for the year	0	0	0	0	2,632	2,632
Transactions with non-controlling interests	0	530	0	0	0	530
Exercise of share options	0	71	0	0	0	71
Dividend distribution	0	0	0	0	-1,859	-1,859
Cancellation of dividends	0	0	0	0	-125	-125
Reduction of share capital	-1,942	55	28	0	0	-1,859
BALANCE AT 31 DECEMBER 2018	**16,321**	**-693**	**1,186**	**2,534**	**8,259**	**27,607**
Carrying amount of interests under control and significant influence	-		-	-	-	-13 093
Value of interests under control and significant influence under the equity method	-		-	-	-	8,529
ADJUSTED UNCONSOLIDATED EQUITY AT 31 DECEMBER 2018	**-**		**-**	**-**	**-**	**23,043**

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 2018 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;
- all known events that occurred until the date the annual report was authorised for issue (18 April 2019) have been properly considered and presented in the consolidated financial statements
- Nordecon AS and its subsidiaries are going concerns.

Gerd Müller
Chairman of the Board
18 April 2019

Priit Luman
Member of the Board
18 April 2019

Maret Tambek
Member of the Board
18 April 2019

Ando Voogma
Member of the Board
18 April 2019

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
30 April 2019

Andri Hõbemägi
Member of the Council
30 April 2019

Vello Kahro
Member of the Council
30 April 2019

Sandor Liive
Member of the Council
30 April 2019

Meelis Milder
Member of the Council
30 April 2019

Independent Auditors' Report

To the shareholders of Nordecon AS

Report on the Audit of the Consolidated Financial Statements

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 2018, 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 64 to 125 of Nordecon AS Group annual report. The consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2018;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated of statement of cash flows for the year then ended;
- the consolidated statement of changes in equity for the year then ended; and
- the notes to the consolidated financial statements, comprising significant accounting policies and other explanatory information.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (Estonia). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Estonia, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Audit Scope

Because we are solely responsible for our audit opinion, we are also responsible for the direction, supervision and performance of the group audit. In this respect, we determined the type of work to be performed on the financial information of the entities (components) within the Group based on their financial significance and/or other risk characteristics.

We, as Group auditors, determined six of the Group's 25 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 two significant components (based on the risk characteristics), OÜ Kalda Kodu and OÜ Eurocon, we conducted audits of selected account balances at Group level.

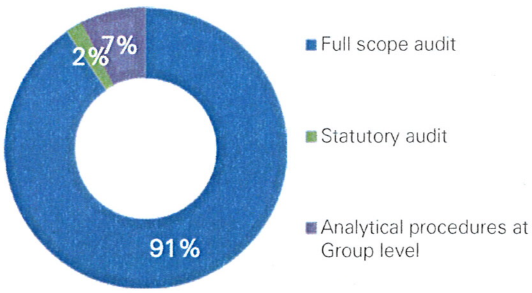
For OÜ Kaurits, we used the results of the statutory audits conducted in accordance with Estonian legislation. OÜ Kaurits was not individually significant from the point of view of the Group but the statutory audit was required by local legislation.

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.

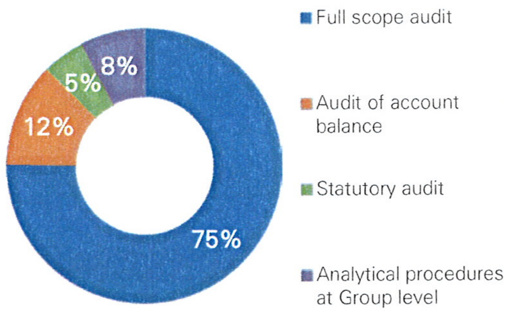
We also performed procedures over the consolidation process at Group level.

Coverage of consolidated revenue and consolidated total assets with procedures performed:

Consolidated revenue



Consolidated assets



The audit work on the financial information of Nordecon AS, Nordecon Betoon OÜ, AS Eston Ehitus, AS Tariston and OÜ Kaurits and the audits of selected account balances in respect of OÜ Kalda Kodu and OÜ Eurocon were performed by the KPMG Group audit team in Estonia. The work over the financial information of the remaining components was performed by KPMG component auditors in 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 the long-term loan provided to the Ukrainian associate	
Refer to notes 5 and 9 of the consolidated financial statements.	
The key audit matter	How the matter was addressed in our audit

KPMG

The consolidated statement of financial position as at 31 December 2018 includes the loan provided to the Group's Ukrainian associate with the carrying amount of 7,780 thousand euros (the loan provided to V.I. Center TOV). The loan was provided for the acquisition and development of a property (plot of land) near Kiev. The Group and the co-owners of V.I. Center TOV have created mortgages on the property owned by the investee in order to safeguard their investments in the property and secure their loans. The ability of the Ukrainian associate to repay this loan depends on the realisation of the development project; and therefore, the value of the loan also depends on the fair value of the underlying property. Ukraine's political and economic situation continues to be uncertain and the events in the country may have a significant impact on the recoverability of the loan and, therefore, on the Group's financial results as explained in note 5. Given the above, at the end of the financial year, the Group's management estimated the loan's recoverable amounts to assess whether it had decreased below its carrying amount. Note 9 explains that the assessment was made by reference to the fair value of the development project to be carried out on the property as estimated by an external appraiser engaged by the Group. The key valuation inputs included the project's expected future cash flows (rental prices), discount rate, vacancy rate, and time factor of the realisation of the development project (deferral of completion). Based on the expected cash flows from the loan provided and the result of the appraisal of the fair value of the property, the carrying amount of the loan remained the same. We assessed this area to be a key audit matter as the recoverable amount of the loan is highly sensitive to the changes in the key valuation assumptions applied and may thus have a material effect on the Group's financial results.	In this area, we conducted, among others, the following audit procedures: • We assessed the valuation report of the property prepared by the external appraiser engaged by the Group, considering the valuation methodology applied as well as the appraiser's competence, skills and objectivity; • Assisted by our own valuation specialists, we assessed the valuation model of the property for mathematical accuracy and the appropriateness of the model against the requirements of the relevant financial reporting standards; • We challenged the reasonableness of the key valuation assumptions and estimates applied by the appraiser by reference to our understanding of the Group's operations and of the economic situation in Ukraine. In the areas where the appraisers had relied on market-based inputs, such as the rental prices, vacancy and discount rates, we compared the inputs with the data available from external sources (such as publicly available market research by real estate appraisal agencies). We also made alternative calculations for the discount rate (WACC – weighted average cost of capital), based on available market data, and compared it to the rate used in the valuation model. • We assessed the appropriateness of the model used to assess the value of the loan provided and the reasonableness of the key inputs used by management. • 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 project; • 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).

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

KPMG

The Group's consolidated statement of financial position as at 31 December 2018 includes goodwill in the amount of 14,176 thousand euros, further discussed in note 15. The goodwill has been allocated to five cash-generating units (CGUs). Relevant financial reporting standards require that goodwill is tested, at least annually, for impairment. The assessment of the recoverability of goodwill requires significant judgment in determining the future performance of the CGUs to which goodwill was allocated. The recoverable amount of goodwill is determined by calculating the value in use of the relevant CGUs using the discounted cash flow method whose key inputs such as the discount rate and the expected future revenue and gross margin depend on management's significant judgment and estimates. The determination of whether the internal and external inputs used by the Group to calculate the recoverable amount of goodwill were based on reasonable and appropriate estimates required our particular attention in the audit. Even small changes in the inputs may have a significant impact on the estimate of the recoverable amount of goodwill and, thus, also on the Group's financial results.	In this area, we conducted, among others, the following audit procedures: • We assessed whether management had appropriately allocated assets to CGUs based on our understanding of the Group's operations; • Assisted by our own valuation specialists, we assessed the model used for calculating the recoverable amount of goodwill against the requirements of the relevant financial reporting standards, and made alternative calculations for the discount rates (WACC) applied in the calculations based on available market data, and compared it to the rates used in the valuation model; • Where the Group had relied on market-based inputs, such as for the loan and rental agreements and discount rates applied, we compared the inputs with the data available from external sources (such as bank confirmations and publicly available market research); • We compared the data used in the model with the budgets and strategy approved by the Group's council and assessed the historical accuracy of the Group's budgeting process by comparing recent years' actual revenue and gross margin to the budgeted amounts; • We evaluated the assumptions and estimates applied in the model (such as the terminal period, working capital investments and capital expenditures) used for calculating the recoverable amount of goodwill, considering our understanding of the Group's operations and the economic environment; • We assessed the adequacy of the related disclosures in the consolidated financial statements, including those in respect of the sensitivity of the valuation results to changes in the key assumptions.

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
The Group has plots of land acquired for development. As at 31 December 2018, the carrying amount of the plots was 9,743 thousand euros. In the consolidated statement of financial position, the plots are classified as	In this area, we conducted, among others, the following audit procedures: • Assisted by our own valuation specialists, we performed the following procedures:

inventories and, as such, are carried at the lower of cost and net realisable value. The plots are located in different parts of Estonia and in the reporting period the number of market transactions involving undeveloped plots was relatively low. Therefore, externally available data for determining the market value of the plots was limited. The Group measured the net realisable value of the plots acquired for development with the assistance of 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 previous years or the current year. 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.	- We checked the competence and objectivity of the real estate valuation specialist working in the Group that had been used by the Group. - We assessed the appropriateness of the residual value model against relevant financial reporting standards and the key valuation inputs applied. Among other things, we compared the plots' book value per square metre with relevant market data, and the apartment sales prices per square metre used in the model with those of comparable assets in the same areas. - We analysed the discount rates applied and the rate of return expected by the shareholders. We also compared the discount rates with external information (such as publicly available market research by real estate appraisal agencies) and challenged the underlying assumptions based on our knowledge about the Group. • We 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; • We carried out an analysis of sensitivity of the valuation outcomes to changes in the key inputs, including changes in the expected sales prices of apartments; • We assessed the adequacy of the related disclosures in the consolidated financial statements, including those in respect of the sensitivity of the valuation results to changes in the key inputs.

Fair value of investment properties

Refer to notes 2 and 13 to the consolidated financial statements.

The key audit matter	How the matter was addressed in our audit
As at 31 December 2018, the Group's investment properties, carried under the fair value model, totalled 5,526 thousand euros, of which 3,547 thousand euros was the value of properties located in Estonia and 1,979 thousand euros was the value of the Ukrainian property. The Group applies the discounted cash flow method in determining the fair values of the properties. This requires management to make	In this area, we conducted, among others, the following audit procedures: • Assisted by our own valuation specialists, we: - Assessed the model used for measuring the fair values of the Group's investment properties for mathematical accuracy, the appropriateness of the model against the requirements of relevant financial reporting standards, and against those applied by other appraisers for similar properties;

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, estimated construction prices and time factor of the realisation of the development project (deferral of completion). Management itself carried out the valuation of investment properties located in Estonia and relied on the valuation report prepared by an external appraiser engaged to value the investment property in Ukraine. The fair value measurements are highly sensitive to changes of the key inputs used. Even relatively small changes in those inputs may have a significant effect on the fair value of the investment properties and, consequently, on the Group's financial results. Therefore, we assessed the valuation of investment properties to be a key audit matter.	- Assessed the valuation report of the Ukrainian property prepared by the external appraiser involved by the management of the Group, considering the valuation methodology used and the competence, capability and objectivity of the appraiser. • We assessed the reasonableness of the key valuation inputs applied in the models, considering our understanding of the Group's operations and the economic environment in Estonia and Ukraine. We compared the book value of the properties per square metre with relevant market data, and the rental prices used in the model with those for similar properties in the same areas. We also challenged the discount rates applied by reference to our independent expectations developed based on our experience with the Group's industry, and challenged the underlying assumptions in the model (such as vacancy rates and exit yield) based on our knowledge of the Group and its operations. We compared the construction prices per square metre used in the model with those of comparable properties; • We carried out an analysis of the sensitivity of the model to changes in the key inputs, including changes in construction prices, rental prices, the discount rate and the time factor of the realisation of the development projects; • 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.

Other Information

Management is responsible for the other information. The other information comprises the Management report, but does not include the consolidated financial statements and our auditors' report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (Estonia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with International Standards on Auditing (Estonia), we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors´ report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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 13 years, covering the periods ending 31 December 2006 to 31 December 2018. 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, 18 April 2019

Andris Jegers
Certified Public Accountant, Licence No. 171

KPMG Baltics OÜ
Audit Firm Licence No. 17

KPMG Baltics OÜ

Narva mnt 5
Tallinn 10117
Estonia

Tel +372 626 8700
www.kpmg.ee

PROFIT ALLOCATION PROPOSAL

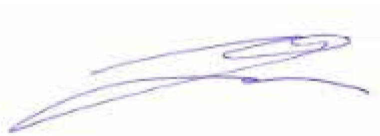
DISTRIBUTABLE PROFIT OF NORDECON AS

	EUR '000
Retained earnings of prior years	7,515
Profit for 2018	3,381
Total distributable profit at 31 December 2018	**10,896**

THE BOARD MAKES THE FOLLOWING PROPOSALS:

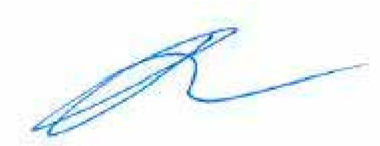
1. to distribute a dividend of 0.06 euros per share (1,892 thousand euros);
2. not to make any transfers to the capital reserve.

Gerd Müller
Chairman of the Board
18 April 2019

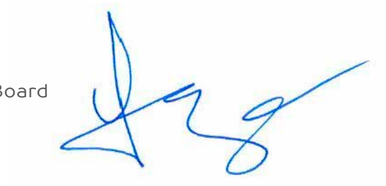


Priit Luman
Member of the Board
18 April 2019

Maret Tambek
Member of the Board
18 April 2019



Ando Voogma
Member of the Board
18 April 2019



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 and 2018. 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 the light of the Group's activities, impacts and stakeholder expectations. The GRI content index table presented below summarises the activities and summarised data of the parent company Nordecon AS and its subsidiaries Eston Ehitus AS, Nordecon Betoon OÜ, Tariston AS, Kaurits OÜ, NOBE Rakennus Oy, SWENCN AB and Eurocon Ukraine TOV unless otherwise stated.

In addition to the approaches used to manage the social responsibility topics described in this report, the management approaches for some aspects are described in more detail in the Group's annual report for 2017 and also apply to the activities of 2018.

GRI STANDARD	DISCLOSURE NUMBER	DISCLOSURE	LOCATION IN REPORT AND/OR EXPLANATION
Foundation (GRI 101: 2016)			
General disclosures (GRI 102: 2016)			
Organizational profile			
	102-1	Name of the organization	Page 2
	102-2	Activities, brands, products, and services	Pages 2, 5, 22-26
	102-3	Location of headquarters	Page 2
	102-4	Location of operations	Pages 17-18, 23
	102-5	Ownership and legal form	Pages 5, 68-72
	102-6	Markets served	Pages 17-18, 23-26
	102-7	Scale of the organization	Pages 6, 16, 24-28, 37, 96

	102-8	Information on employees and other workers	Page 37 (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 44-45 (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 22, 68-73
	102-11	Precautionary principle or approach	Pages 19-21, 46-50
	102-12	External initiatives	Pages 31, 42, 46
	102-13	Membership of associations	Page 51
Strategy			
	102-14	Statement from senior decision-maker	Pages 7-9
Ethics and integrity			
	102-16	Values, principles, standards, and norms of behaviour	Pages 5, 57-58, 59-65
	102-17	Mechanisms for advice and concerns about ethics	Pages 57-58
Governance			
	102-18	Governance structure	Pages 54-56 (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 14
	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 14
	102-43	Approach to stakeholder engagement	Pages 14, 33, 35-36, 39, 44-45, 51-52
	102-44	Key topics and concerns raised	Pages 14-15
Reporting practice			
	102-45	Entities included in the consolidated financial statements	Pages 22, 198

	102-46	Defining report content and topic Boundaries	Pages 14–15
	102-47	List of material topics	Pages 14–15
	102-48	Restatements of information	No restatements have been made.
	102-49	Changes in reporting	The report covers the same topics as the report for the prior period
	102-50	Reporting period	Page 2
	102-51	Date of most recent report	The previous annual report was released on 20 April 2018.
	102-52	Reporting cycle	The report is published once a year.
	102-53	Contact point for questions regarding the report	Andri Hõbemägi, 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 197–202
	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 31–34
	non-GRI	Customer satisfaction	Page 35
Management quality			
Management approach (GRI 103: 2016)	103-1 until 103-3		Page 40
	non-GRI	Management trainings for senior managers	Page 40
Innovation			
Management approach (GRI 103: 2016)	103-1 until 103-3		Page 34
	non-GRI	Usage of BIM in projects	Page 34
Environmental impact of ready-made buildings and sites			
Management approach (GRI 103: 2016)	103-1 until 103-3		Pages 49–50
	non-GRI	Energy labels and environmental standards	Pages 49–50

Economic performance (GRI 201: 2016)			
Management approach (GRI 103: 2016)	103-1 until 103-3		Pages 27-28
	201-1	Direct economic value generated and distributed	Pages 27-28, 37-38, 53, 96-98
Anti-corruption (GRI 205: 2016)			
Management approach (GRI 103: 2016)	103-1 until 103-3		Pages 57-58
	205-3	Confirmed incidents of corruption and actions taken	Pages 57-58
Energy (GRI 302: 2016)			
Management approach (GRI 103: 2016)	103-1 until 103-3		Page 49
	302-1	Energy consumption within the organization	Page 49 (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 49
	304-1	Operational sites owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas	Page 49
Emissions (GRI 305: 2016)			
Management approach (GRI 103: 2016)	103-1 until 103-3		Page 49
	305-1	Direct (Scope 1) GHG emissions	Page 49 (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		Pages 47-49
	306-3	Significant spills	Page 49
Environmental compliance (GRI 307: 2016)			
Management approach (GRI 103: 2016)	103-1 until 103-3		Page 46
	307-1	Non-compliance with environmental laws and regulations	Page 46
Supplier environmental assessment (GRI 308: 2016)			
Management approach (GRI 103: 2016)	103-1 until 103-3		Pages 44-45
	308-2	Negative environmental impacts in the supply chain and actions taken	Page 44

Employment (GRI 401: 2016)			
Management approach (GRI 103: 2016)	103-1 until 103-3		Pages 37-38
	401-1	New employee hires and employee turnover	Page 37 (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 39
	non-GRI	Interns	Page 39
Occupational health and safety (GRI 403: 2018)			
Management approach (GRI 103: 2016)	103-1 until 103-3		Pages 42-43
	403-1 until 403-7		Pages 42-43
	403-9	Work related injuries	Page 43 (data is disclosed in as much detail as is collected by Group companies in line with the concept of materiality)
Training and education (GRI 404: 2016)			
Management approach (GRI 103: 2016)	103-1 until 103-3		Page 40
	404-1	Average hours of training per year per employee	Page 40 (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 40
Diversity and equal opportunity (GRI 405: 2016)			
Management approach (GRI 103: 2016)	103-1 until 103-3		Pages 37, 41
	405-1	Diversity of governance bodies and employees	Pages 37, 41, 54-56 (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 41
	406-1	Incidents of discrimination and corrective actions taken	Page 41
Local Communities (GRI 413: 2016)			
Management approach (GRI 103: 2016)	103-1 until 103-3		Pages 36, 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 36
	non-GRI	Complaints received from surrounding inhabitants regarding disturbing construction activities	Page 36
Supplier social assessment (GRI 414: 2016)			
Management approach (GRI 103: 2016)	103-1 until 103-3		Pages 44-45
	414-2	Negative social impacts in the supply chain and actions taken	Pages 44-45
Public policy (GRI 415: 2016)			
Management approach (GRI 103: 2016)	103-1 until 103-3		Pages 57-58
	415-1	Political contributions	Page 57
Customer health and safety (GRI 416: 2016)			
Management approach (GRI 103: 2016)	103-1 until 103-3		Page 31
	416-2	Incidents of non-compliance concerning the health and safety impacts of products and services	Page 31
Socioeconomic compliance (GRI 419: 2016)			
Management approach (GRI 103: 2016)	103-1 until 103-3		Pages 57-59
	419-1	Non-compliance with laws and regulations in the social and economic area	Pages 57-59

www.nordecon.com

Photos: Jakob Meier, Jarek Jõepera, Kristian Kruuser, Lisanna Remmelkoor, Maris Tomba, and Riho Kirss