



Annual report 2012

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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 2012 – 31 December 2012
Council	Toomas Luman (chairman), Alar Kroodo, Andri Hõbemägi, Tiina Mõis, Meelis Milder, Ain Tromp
Board	Jaano Vink (chairman), Avo Ambur, Erkki Suurorg
Auditor	KPMG Baltics OÜ

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ABOUT THE GROUP

Nordecon AS (previous names AS Eesti Ehitus and Nordecon International AS) began operating as a construction company in 1989. Since then, we have grown to become one of the leading construction groups in Estonia and a strong player in all segments of the construction market.

For years, our operating strategy has been underpinned by a consistent focus on general contracting and project management and a policy of maintaining a reasonable balance between building and infrastructure construction. We have gradually extended our offering with activities that support the core business such as road maintenance, concrete works and other services that provide added value, improve the Group's operating efficiency and help manage our business risks.

Nordecon's specialists offer our customers high-quality integrated solutions in the construction of commercial, industrial and public buildings as well as infrastructure – roads, landfill sites, utility networks and port facilities. In addition, the Group is involved in the construction of concrete structures, leasing out heavy construction equipment, and road maintenance.

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

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

Nordecon AS has been listed on the NASDAQ OMX Tallinn Stock Exchange since 18 May 2006.

VISION

To be the preferred partner in the construction industry for customers, subcontractors and employees.

MISSION

To offer our customers building and infrastructure construction solutions that meet their needs and fit their budget and thus help them maintain and add value to their assets.

SHARED VALUES

Professionalism

We are professional builders – we apply appropriate construction techniques and technologies and observe generally accepted quality standards. Our people are results-oriented and go-ahead; we successfully combine our extensive industry experience with the opportunities provided by innovation.

Reliability

We are reliable partners – we keep our promises and do not take risks at the expense of our customers. Together, we can overcome any construction challenge and achieve the best possible results.

Openness

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

Employees

We inspire our people to grow through needs-based training and career opportunities consistent with their experience. We value our employees by providing them with a modern work environment that encourages creativity and a motivation system that fosters initiative.

Message from the chairman of the council

I am pleased to report that for Nordecon group the past year was a success – we are back in profit. In recent years, most construction sector players have blamed their losses on adverse developments in the economic environment. However, when the environment changes, it is crucial for companies to ensure the quality of their decision-making, particularly in the area of pricing, resource allocation and risk assessment. This is where most mistakes were made, which ultimately undermined the performance of construction companies. In light of this, it is satisfying to note that the key factor, which helped Nordecon return to profit, was a change in our own management approach, which began with aggressive cost-cutting in 2008 and continued with several structural changes and efficiency programmes in subsequent years. Naturally, recovery of the economy and growth in the demand for construction services also contributed.

However, from the point of view of productivity, profitability is like a double-edged sword. Gradually and unnoticeably, the sense of success from strong performance may start affecting resource allocation decisions and, thus, eating away the rise in efficiency. In 2011, Nordecon's productivity, in terms of revenue by employee, was several times higher than relevant indicators for the economy as a whole and the construction sector. Regrettably, the trend did not continue in 2012. We improved our productivity by 3%, which is quite different from the 13% rise posted by the construction sector. On the one hand, this indicates that Nordecon recovered from the crisis considerably faster than the others. On the other hand, this means that we will have to sustain the efforts made for increasing our efficiency if we wish to maintain our competitiveness as a leading Estonian construction group.

The latter fact is particularly important in light of the changes that await the construction market. In 2014, the volume of public procurement, which relies on the EU support, is expected to shrink by almost a third. Therefore, although we are looking ahead with moderate optimism, we are also fully aware that Nordecon's success is based on our own business creed – to offer the customer a construction service that is delivered on time and to generally accepted quality standards, using those and only those resources that we ourselves have originally planned.

Toomas Luman

Chairman of the Council

Chief executive's statement

The forecast made a year ago held up. The year 2012 proved the best for the Estonian construction market as well as Nordecon since the beginning of the severe downturn that hit us over four years ago. Largely thanks to the support of the EU structural funds and proceeds from the sale of CO₂ allowances there was sufficient work in the construction market and companies could deliver positive performance. As a result, competitive pressure eased up and the shakeout of weak players and market concentration, which had started during the crisis, decelerated. We expect the process to regain momentum in the current year. I am pleased to state that last year Nordecon exceeded its targets. The Group's revenue grew by 8% but, more importantly, our profit margins improved considerably. All our Estonian entities showed a net profit. Only the Ukrainian operations remained in the red, but the figure was insignificant.

Although our contract portfolio was expectedly dominated by infrastructure projects awarded by the state or local governments, last year Nordecon, like many other builders, was pleasantly surprised by private sector customers whose return to the construction market had been awaited for years. The contracts secured in 2012 have created a solid basis for the current period, allowing us to maintain a clear focus on the profitability of our operations. The more interesting and challenging projects of the year included construction of the Estonian embassy in Kiev, construction of buildings for the Ämari air base which defends the NATO air space, and, naturally, renovation of the Seaplane Harbour exhibition building of the Estonian Maritime Museum, which was named Best Concrete Structure of the Year in February 2013. What is more, in the case of many projects we were able to surprise the customer by completing the work before the agreed deadline. This was possible thanks to effective cooperation with the customer and the owner's engineer, which was a very welcome development.

However, in 2013 builders will again be faced with many challenges. For the infrastructure segment, it is the last year of the EU financial framework 2007-2013 and fewer new projects will be announced. The situation will be somewhat alleviated by the increasing activity of private sector customers, particularly in building construction. We hope that this will add balance and stability to the construction market so that the number of tenders aimed at the lowest possible price, which have predominated the market for years, will diminish and quality will regain its rightful importance.

Although we are realists when it comes to making future plans, Nordecon is looking ahead with moderate optimism. In the year ahead, we are going to complete some large-scale road contracts in Harjumaa and Tartu and will also work on several exciting building construction projects.

The past year proved that we have exited the crisis stronger and more experienced. An interested reader can find out more about this from our yearbook, which also highlights our keywords – professionalism, openness and reliability.

Jaano Vink

Chairman of the Board

Management's discussion and analysis

Group strategy and objectives until and through 2013

In line with the strategy approved by the council in 2010, during the current strategy period the Group must focus on doing business in its main market, Estonia, where we are represented in practically all segments of the construction market and can rely on extensive local experience.

In order to adapt to changes in the external environment, we will continue implementing the plans made for internal restructuring and proactive cost and operational risk management. Only this will allow improving our profit margins and achieving business growth compared with the downturn of 2009-2011. It is also the only way of creating opportunities for successfully entering the growth phase of the market in the forthcoming years (applies also to our target foreign markets).

According to the strategy, until 2013 (inclusive) the Group will focus on the above. The action plan for 2012-2013 supports the Group's recovery from the slump and prepares ground for seizing the opportunities that may be offered by market growth from 2015.

In the near term, we will not seek to increase revenue without applying measures that ensure profitability because this might lead to taking unjustified risks in a situation where rapidly rising input prices may have a strong impact on companies' performance in subsequent years.

Nordecon group's main strategic objectives until and through 2013

- To complete the significant adjustments to the Group's structure and management that were launched in 2009 in order to secure profitable and rapid growth in the rise phase of the market.
- To continue building construction operations in Ukraine in line with the former strategy.
- To maintain preparedness for re-launching more active operations in our foreign markets (as a general contractor) as soon as the situation in the construction market becomes sufficiently supportive.
- To operate in the Finnish concrete works market (as a contractor) through the subsidiary Nordecon Betoon OÜ in order to support development of the business line.
- To be by the end of 2013 a leading construction group in Estonia that earns half of its revenue from infrastructure and the other half from building construction.

The key theme of the strategy for 2010-2013 is "To respond to market changes swiftly and flexibly and to enter the next economic growth cycle successfully".

Organisation of the Group's Estonian and foreign operations

Estonian operations

The Group continued to operate in the buildings and infrastructure segments, being active in practically all market sub-segments. A significant proportion of the Group's core business was conducted by the parent, Nordecon AS, which continued to act as a holding company for the Group's main subsidiaries. In addition to the parent, construction management services were rendered by the subsidiary AS Eston Ehitus, which operates mostly in western and central Estonia.

As regards other main business lines, the Group continued to provide concrete services (Nordecon Betoon OÜ), leasing out heavy construction machinery and equipment (Kaurits OÜ), and providing regional road maintenance services in the Keila area in Harju county and in Järva and Hiiu counties (delivered by Nordecon AS, Järva Teed AS and Hiiu Teed OÜ respectively).

In the period under review, the Group did not enter any new operating segments in Estonia.

Foreign operations

Latvia

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

Lithuania

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

Belarus

During the period under review, our Belarusian subsidiary Eurocon Stroi IOOO completed its only remaining construction contract. As decided by the Group's management in 2011, after the completion of the contract we discontinued our operations in Belarus and the Belarusian subsidiary was liquidated.

Ukraine

There were no changes in our Ukrainian operations during the period under review. The economic and political situation in the country did not improve and, thus, we were not able to expand our Ukrainian business operations. Still, the number of bids requested for new construction projects increased somewhat.

Real estate development projects that require extensive investment (the Group has currently an interest in two conserved development projects) will remain suspended to minimise the risks until the situation in Ukraine becomes clearer. To secure the investment, the Group and its co-owners privatised the land of the V.I. Center TOV development project. By the date of release of this report, privatisation proceedings have been completed, the properties belong to our Ukrainian associate and they have been encumbered with mortgages created for the benefit of the Group.

Finland

There were no changes in our Finnish operations during the period. The Group's subsidiary Nordecon Betoon OÜ together with its Finnish subsidiary Estcon Oy continued to provide subcontracting services in the concrete works sector in Finland.

Performance by geographical market

In 2012, roughly 2% of our revenue was generated outside Estonia compared with 3% in 2011.

	2012	2011	2010	2009	2008
Estonia	98%	97%	94%	86%	80%
Ukraine	0%	0%	2%	3%	12%
Lithuania	0%	0%	0%	0%	2%
Latvia	0%	0%	0%	11%	6%
Belarus	0%	1%	3%	0%	0%
Finland	2%	2%	1%	0%	0%

In 2012, our foreign revenues declined due to discontinuance of operations in Belarus (see also the chapter *Organisation of the Group's Estonian and foreign operations*). Finnish revenue consisted of revenues from concrete works contracts. We expect the contribution of foreign markets to remain at a similar level in 2013.

Geographical diversification of the revenue base is a consciously deployed strategy by which we mitigate the risks resulting from excessive concentration. Although in the long term our strategy foresees increasing foreign operations, in the short term the Group will focus on the Estonian market that it knows best and which entails fewer known market risks. The Group's vision of its future operations in foreign markets 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 and industrial buildings and facilities, road construction and maintenance, specialist and environmental engineering, concrete works and real estate development.

The Group's revenue for 2012 was 159,422 thousand euros, 8% up on the 147,802 thousand euros generated in 2011. The foundation for revenue growth was laid in 2011 when the Estonian construction market began recovering and the Group secured a number of major new contracts lasting for over 12 months. The first half of 2012 was also successful in terms of winning new contracts.

The Group aims to maintain the revenues of its operating segments (Buildings and Infrastructure) in balance as this helps disperse risks and provides better opportunities for continuing operations under stressed circumstances when one segment experiences shrinkage. The Group has set a strategic ceiling for revenue from the construction of apartment buildings, which has to remain below 20% of total sales.

Construction volumes in the Estonian market

According to the preliminary statistics released by Statistics Estonia, in 2012 Estonian construction companies' total production amounted to 2,079 million euros (of which 1,857 million euros was generated in Estonia). According to the construction production index, output grew by 19% year on year. Buildings were built for 1,230 million euros and infrastructure assets for 849 million euros (growth of 20% and 16% respectively in constant prices). The construction market expanded for the second consecutive year in both of the main segments. Similarly to 2011, the rise in demand was driven by investments made with the support of the EU structural funds, particularly in the infrastructure segment. Another facilitating factor was a national measure implemented by Riigi Kinnisvara AS (a state-owned company entrusted with managing state-owned real estate assets) by which 146.5 million euros of proceeds from the sale of CO₂ emission allowances was allocated for improving the energy efficiency of public buildings across Estonia.

We could also witness positive developments in the construction of residential and non-residential buildings. Following a downturn of four years, in 2012 the number of new dwellings that received permits of use grew by 72 to 1,990. The number of construction permits issued increased by 10%. In the market for non-residential premises, investments made by private investors grew markedly. During the year, 840 non-residential premises with a net usable area of 474,000 square metres received a permit of use. The largest growth occurred in the construction of retail, warehouse, and agricultural premises.

Construction production (volumes)*	2011	2010	2009	2008	2007	2006
Construction production in Estonia, in EUR millions	1,660.1	1,275.4	1,514.6	2,397.4	2,757.6	2,208.9
Of which buildings	958.1	718.4	901.9	1,579.1	1,953.6	1,509.0
Of which infrastructure assets	702.0	557.0	612.7	818.3	804.0	699.9

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

Segment revenues

In 2012, the revenues of our Infrastructure segment were expectedly larger than those of our Buildings segment, the figures for the two segments being 89,184 thousand euros and 66,737 thousand euros respectively. The corresponding figures for 2011 were 72,735 thousand euros and 70,357 thousand euros (see note 27). Compared with 2011, the Infrastructure segment increased revenue, mostly in the road construction sub-segment. The revenues of the Buildings segment declined because most of the work under some major public procurement contracts (e.g. the construction of the exhibition building of the Estonian Maritime Museum) was done in 2011.

For a long time, the bulk of work in the construction market has been related to infrastructure assets (mostly projects financed with the support of the state and the EU structural funds) and a major proportion (65%) of contracts in the Group's order book belongs to the Infrastructure segment. Despite this, in previous periods the revenues of the two segments were more or less equal because building construction contracts have a shorter term than those of infrastructure construction. Infrastructure contracts have a longer term (e.g. road maintenance contracts) and their contribution to realised revenue is therefore comparatively smaller.

Revenue by segment*

Operating segments	2012	2011	2010	2009	2008
Buildings	42%	48%	48%	45%	63%
Infrastructure	58%	52%	52%	55%	37%

* In *Management's discussion and analysis* the Ukrainian and Belarusian buildings segment and the EU buildings segment are presented as a single segment. In the financial statements the two are presented separately as required by IFRS 8 *Operating Segments*. In addition, the segment information presented in *Management's discussion and analysis* does not include the disclosures on "Other segments" that are presented in the financial statements.

In *Management's discussion and analysis*, projects have been allocated to operating segments based on their nature (i.e. building or infrastructure construction). In the segment reporting presented in the financial statements, allocation is based on the subsidiaries' main field of activity (as required by IFRS 8 *Operating Segments*). In the financial statements, the results of a subsidiary that is primarily engaged in infrastructure construction are presented in the Infrastructure segment. In *Management's discussion and analysis*, the revenues of such a subsidiary are presented based on their nature. The differences between the two parts of the report are not significant because in general Group entities specialise in specific areas except for the subsidiary Nordecon Betoon OÜ that is involved in both building and infrastructure construction. The figures for the parent company have been allocated in both parts of the annual report based on the nature of the work.

Sub-segment revenues

The Buildings segment continued to earn most of its revenue from the construction of public buildings financed by the public sector although volumes shrank compared with the previous year. In terms of work performed, the largest projects of 2012 were the construction of the Ämari air base and the Estonian embassy in Kiev. During the year, Group entities built several family and care home complexes across Estonia in the framework of the national social welfare programme. The largest ongoing construction project is the design and build of the Translational Medicine Centre of the University of Tartu.

Improvements in the economic environment encouraged private sector investment in the commercial buildings sub-segment. During the year, we began building five new commercial buildings – three in Tallinn, one in Tartu and one in Narva. Although private sector investments grew visibly year over year, their relative scarcity compared with public sector investments remains a problem for the entire construction market.

In the industrial and warehouse facilities sub-segment private sector investments also grew slightly but most of the revenue still resulted from contracts performed for the agricultural sector. Compared with 2011, their contribution declined because the support allocated from the EU structural funds that co-finance the projects decreased.

Apartment buildings were built for non-Group customers, the Group acting as a general contractor, not a developer.

Revenue distribution within Buildings segment	2012	2011	2010	2009	2008
Commercial buildings*	26%	12%	19%	66%	59%
Industrial and warehouse facilities*	35%	40%	36%	10%	16%
Public buildings	36%	45%	35%	18%	14%
Apartment buildings	3%	3%	10%	6%	11%

* The 2010 figures for Commercial buildings and Industrial and warehouse facilities have been adjusted (in the annual report for 2010 the figures were 37% and 18% respectively). The change resulted from reclassification of revenue from the construction of agricultural assets.

As expected, the main revenue source in the Infrastructure segment was road construction and maintenance. The sub-segment's contribution was boosted by contracts for the construction of the Tartu western bypass and eastern ring road that were secured in the first half-year.

In specialist engineering, growth was underpinned by the construction of facilities for Sillamäe port, which commenced in the second half of 2011, and Kärdla guest harbour, which began in summer 2012.

Similarly to previous years, a major share of the revenue of the Infrastructure segment resulted from other engineering, i.e. the construction of water and wastewater networks financed with the support of the EU structural funds across Estonia. Compared with 2011, the sub-segment's turnover remained stable but its contribution dropped because the revenues of other sub-segments increased.

The contribution of environmental engineering decreased because there was no contract comparable to the bio-filter of the Tallinn wastewater treatment plant, which was under construction in 2011. We won several environmental engineering contracts in 2012 but the bulk of their construction activity will fall in 2013.

Revenue distribution within Infrastructure segment	2012	2011	2010	2009	2008
Road construction and maintenance	51%	47%	62%	49%	45%
Specialist engineering (including hydraulic engineering)	15%	10%	1%	12%	24%
Other engineering	27%	35%	28%	31%	25%
Environmental engineering	7%	8%	9%	8%	6%

Major projects and professional recognition

Major projects completed by Group entities in different sub-segments in 2012*:

Project	Group entity	Customer	Operating segment
Reconstruction of the Ebavere - Rakke section of national road 22 Rakvere - Väike-Maarja - Vägeva (km 30.49-43.7)	Nordecon AS	Estonian Road Administration	Road construction
Surface rehabilitation on road no 11 Tallinn ring road (from km 23.8 to km 30.2)	Nordecon AS	Estonian Road Administration	Road construction
Reconstruction of the academic building of the Faculty of Social Sciences of the University of Tartu	Nordecon AS	University of Tartu	Public buildings
Construction of buildings for the Ämari air base	Nordecon AS	Ministry of Defence	Public buildings
Construction of phase 3 of the Fama shopping centre in Narva	Nordecon AS	Fama Invest OÜ	Commercial buildings
Reconstruction of the wastewater treatment plant of Vaida rural community	Nordecon AS	AS Elveso	Environmental engineering
Reconstruction of the water and wastewater network and design and build of the wastewater treatment plant of the town of Kohila	Nordecon AS	Kohila Maja OÜ	Other engineering, environmental engineering
Construction of the Halinga livestock complex	Nordecon AS	Halinga OÜ	Industrial and warehouse facilities
Construction of the Aravete biogas plant	Nordecon AS	Aravete Biogaas OÜ	Industrial and warehouse facilities
Construction of light traffic roads in the town of Tapa	AS Järva Teed	Tapa Rural Municipality Government	Road construction
Reconstruction of Metsamäe tee in Matsalu National Park	AS Järva Teed	State Forest Management Centre	Road construction
Construction of a production building for Matek AS in Pärnu	Eston Ehitus AS	Matek AS	Industrial and warehouse facilities
Construction of family care homes for Hoolekandeteenused AS in Karula, Viljandi, Kehra, Tapa and Vändra	Eston Ehitus AS	Hoolekandeteenused AS	Public buildings

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

Professional recognition of the Group and our staff

Concrete Structure of the Year Award

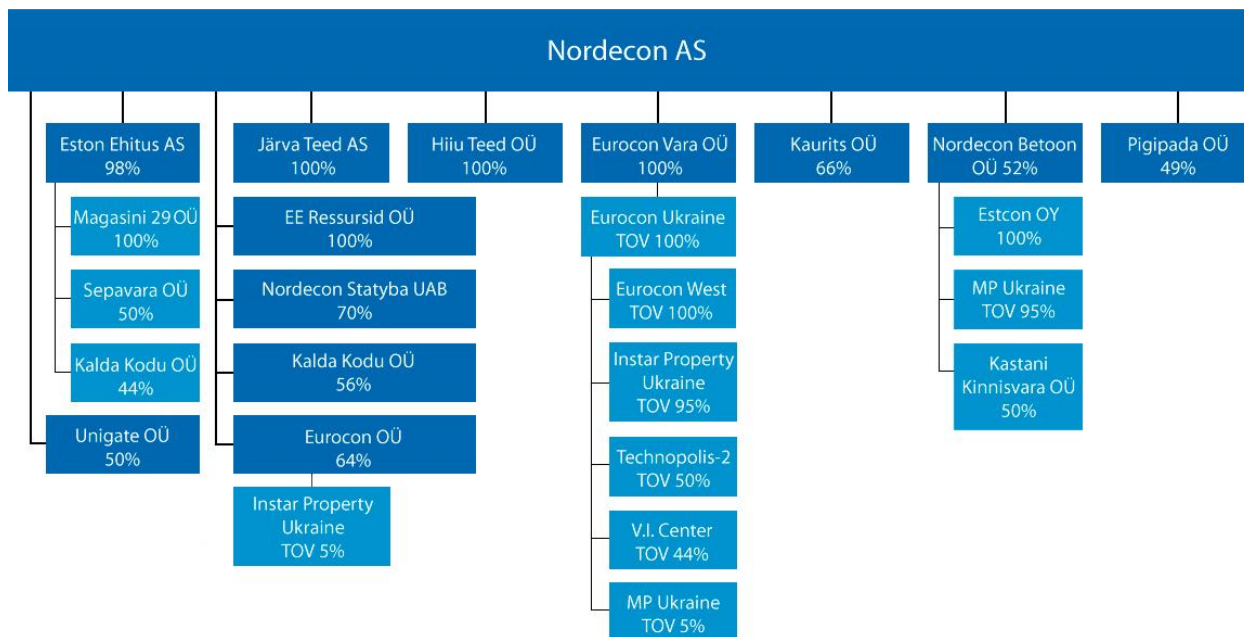
On the Concrete Day held in March 2013, the Estonian Concrete Association announced winners of the Concrete Structure of the Year 2012 competition. The reconstructed concrete structures of the Seaplane Harbour exhibition building of the Estonian Maritime Museum, built by Nordecon AS, were named Concrete Structure of the Year. At the same competition, Nordecon AS also received the Builder of the Year Award.

Best Municipal Engineering Facility Award

The 10th Annual International Conference on Municipal Engineering, organised by the Estonian Association of Municipal Engineering, awarded the title of the Best Municipal Engineering Facility 2012 to Vändra Stadium built by the Group's subsidiary Eston Ehitus AS.

Group structure

The Group's structure at 31 December 2012, including interests in subsidiaries and associates*



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

Significant changes in the Group's structure

Unigate OÜ

In October, the shareholders of Unigate OÜ signed a notarised plan of division by which some properties subject to nature conservation restrictions were separated from the company and divided equally between the shareholders. In line with the plan, the properties were transferred to companies established by the shareholders. Nordecon AS established four subsidiaries for accepting the properties (OÜ Paekalda 2, OÜ Paekalda 3, OÜ Paekalda 7 and OÜ Paekalda 9). The subsidiaries' sole shareholder is Nordecon AS. The subsidiaries did not conduct any business operations in 2012.

Eurocon OÜ

In October, Eurocon OÜ (the acquirer) and its solely held subsidiary Instar Property OÜ (the acquiree) signed a merger agreement. The merger proceedings did not give rise to any changes in the share capital of the acquirer, Eurocon OÜ. Instar Property OÜ did not conduct any business operations in 2012.

Eurocon Stroi IOOO

In November, we completed the liquidation of our Belarusian subsidiary Eurocon Stroi IOOO in which Nordecon AS had a 100% stake. The entity was liquidated in connection with the Group's exit from the Belarusian construction market (see also the chapter *Organisation of the Group's Estonian and foreign operations*).

Changes in the Group's structure after the reporting date

Pigipada OÜ

In January 2013, Nordecon AS sold its 49% interest in the associate Pigipada OÜ to its subsidiary Hiiu Teed OÜ. The core business of Pigipada OÜ is refining oil products. In particular, the entity produces bitumen emulsion, a binder required in surfacing and asphalt laying works. The purpose of the intra-group restructuring was to allow the main consumer of Pigipada OÜ's output to acquire a stake in the entity and thereby to create synergies between the two companies that operate in the same value chain.

Financial review

Financial performance

Nordecon group's gross profit for 2012 was 8,217 thousand euros (2011: 194 thousand euros). The upswing in gross profit and gross margin (5.2% for 2012 compared with 0.1% for 2011) was underpinned by the absence of loss-generating contracts, which weakened our performance in 2011.

The key factors that helped improve the margins were Group-wide austerity measures enforced in 2010 in response to market slump and internal restructuring and streamlining. Although volume growth, which emerged in 2011, has clearly improved the situation in the Estonian construction market, we will have to sustain our efforts to maintain and enhance the results achieved. Management continues to underline that the profits of long-term construction contracts are earned based on the stage of completion of contract activity, which means that profit is recorded gradually over the contract term.

The rise in profitability was facilitated by changes in the external environment. Thanks to the investments made by the public sector as well as the private sector whose activity increased notably in 2012, the Estonian construction market sustained growth through the year. At the same time, the prices of construction inputs and subcontracting services remained relatively stable. The combination of those factors created a sound basis for a rise in construction contracts' average profit margin. Although competition in the construction market continues to be fierce, in certain segments (e.g. road construction and construction of water and wastewater networks) the number of players has stabilised, alleviating pressure on the bidders' profit margins. Unfortunately, there is still no indication of a decrease in competitive pricing pressure in building construction, where lack of private sector customers has rendered the market too small for all general contractors. Nordecon continues to acknowledge the fact that long-term construction contracts involve the risk of growth in input prices and remains committed to prioritizing the profitability of contracts secured over increasing or maintaining its revenue.

Administrative expenses for 2012 totalled 5,385 thousand euros (2011: 4,641 thousand euros). The figure for 2012 includes non-recurring consulting fees incurred for adjusting the Group's operating and financial strategy to the changing environment and provisions made for performance bonuses (in 2011 relevant provisions were not made). The ratio of administrative expenses to revenue was 3.4% (2011: 3.1%). Our cost-control measures continue to yield strong results, allowing us to maintain administrative expenses below the target ceiling, i.e. 5% of revenue.

The Group's operating profit for 2012 was 2,687 thousand euros (2011: an operating loss of 4,630 thousand euros). EBITDA was positive at 4,833 thousand euros (2011: negative at 1,819 thousand euros).

The Group ended the year with a net profit of 1,926 thousand euros (2011: a net loss of 4,708 thousand euros). The profit attributable to owners of the parent, Nordecon AS, was 1,477 thousand euros (2011: a loss of 5,304 thousand euros).

Cash flows

Operating activities generated a net cash inflow of 8,941 thousand euros (2011: 8,523 thousand euros). Operating cash flow was influenced the most by cyclical fluctuations in project-related cash flows. The settlement terms granted to customers are unreasonably long and in the case of public procurement generally extend from 45 to 56 days (sometimes even to 100 days) while subcontractors ordinarily have to be paid within 21 to 45 days. In 2012, the difference between the settlement terms agreed with customers and those agreed with subcontractors continued to increase. We counteract the mismatch between cash inflows and outflows with factoring and overdraft facilities obtained for meeting our working capital requirements.

VAT and labour-related payments grew compared with 2011. In 2012, a major amount of building materials was purchased from abroad without the possibility to recover input VAT but on the sale of services in Estonia VAT had to be paid. VAT payments were also influenced by the fact that we generated considerably more gross profit. In 2011, completion of loss-making contracts resulted in prepaid VAT, which was used, among other things, to offset labour tax liabilities. In 2012, we did not have such offsetting opportunities. Moreover, labour related payments increased because of performance pay, which was implemented when the Group began earning a profit.

Cash flows from investing activities resulted in a net outflow of 2,495 thousand euros (2011: a net inflow of 2,022 thousand euros). The main reasons for the net outflow were loans to associates including a loan given for privatising the plot of a real estate project in Ukraine. Payments for property, plant and equipment (including a new and more productive asphalt plant acquired through a sale and leaseback transaction) accounted for a similar proportion as loans provided. In the comparative period, net cash flow from investing activities was positive on account of settlement of loans provided.

Financing activities resulted in a net cash outflow of 6,123 thousand euros (2011: a net outflow of 5,996 thousand euros). The net amount of loan receipts and repayments was negative at 2,970 thousand euros (2011: negative at 2,982 thousand euros). The volume of loans received was increased by the acquisition of a new asphalt plant through a sale and leaseback transaction. Dividends paid comprise profit distributions to a subsidiary's non-controlling shareholders.

At 31 December 2012, the Group's cash and cash equivalents totalled 10,231 thousand euros (31 December 2011: 9,908 thousand euros). Management's comments on potential liquidity risks are presented in the chapter *Description of the main risks*.

Investment

Equity investments

In 2012, the Group did not make any major investments in non-Group entities. Less significant equity investments are described in the chapter *Group structure* as well as in notes 6 and 7 to the consolidated financial statements.

Acquisition of investment properties

In 2012, the Group did not purchase or sell any investment properties (properties held for resale, for earning rental income or for capital appreciation). There were no such transactions in the comparative period either.

Investment in property, plant and equipment and intangible assets

In 2012, the Group invested 3,742 thousand euros in property, plant and equipment (2011: 823 thousand euros). For comparison, relevant investments for the period 2009-2011 totalled 1,854 thousand euros. There were three main reasons for investment: replacing obsolete machinery and equipment, improving operating efficiency and acquiring the equipment required for meeting road maintenance requirements. The largest one-off investment was the acquisition of a new mobile asphalt plant (see note 17).

We did not make any major investments in intangible assets in 2012 (see note 18).

Changes in the carrying amounts of relevant non-current asset classes

Asset class (EUR '000)	2012	2011
Investments in equity-accounted investees (see note 13)	3	100
Property, plant and equipment (net carrying amount) (see note 17)	1,414	-1,601
Intangible assets (net carrying amount) (see note 18)	-103	-526

In 2013, we are planning to invest less than in 2012. However, taking into account the relatively small scale of investments made during the period 2009-2011, we will have to invest more than usual in the replacement of obsolete machinery and equipment. We also intend to continue making investments that improve our operating efficiency.

Key financial figures and ratios

Figure/ratio	2012	2011	2010	2009	2008
Revenue (EUR'000)	159,422	147,802	99,312	154,595	247,205
Revenue growth/decrease, %	7.9%	48.8%	-35.8%	-37.5%	3.1%
Net profit/loss (EUR'000)	1,926	-4,708	-12,738	-5,717	10,949
Profit/loss attributable to owners of the parent (EUR'000)	1,477	-5,304	-11,810	-2,923	9,304
Weighted average number of shares	30,756,728	30,756,728	30,756,728	30,756,728	30,756,728
Earnings per share (EUR)	0.05	-0.17	-0.38	-0.10	0.30
Administrative expenses to revenue, %	3.4%	3.1%	4.9%	5.2%	4.7%
EBITDA (EUR'000)*	4,833	-1,819	-5,375	275	17,969
EBITDA margin, %	3.0%	-1.2%	-5.4%	0.2%	7.3%
Gross margin, %	5.2%	0.1%	-0.7%	5.6%	9.3%
Operating margin, %	1.7%	-3.1%	-9.0%	-5.2%	5.4%
Operating margin excluding gains on asset sales, %	1.4%	-3.5%	-9.4%	-5.4%	5.3%
Net margin, %	1.2%	-3.2%	-12.8%	-3.7%	4.4%

Figure/ratio	2012	2011	2010	2009	2008
Return on invested capital, %	5.2%	-5.9%	-15.8%	-4.1%	19.1%
Return on equity, %	6.6%	-15.2%	-32.6%	-11.4%	20.5%
Equity ratio, %	27.1%	28.0%	35.1%	37.1%	36.5%
Gearing, %	33.7%	32.8%	42.3%	26.4%	18.2%
Current ratio (see note 5)	1.08	1.14	1.39	1.47	1.33
As at 31 December	2012	2011	2010	2009	2008
Order book (EUR'000)	127,259	134,043	85,607	97,827	141,932

* For the purpose of calculating EBITDA, non-cash items include not only depreciation and amortisation but also impairment losses on goodwill (2011: 425 thousand euros; 2010: 411 thousand euros; 2009: 3,912 thousand euros).

Revenue growth/decrease = (revenue for the reporting period/ revenue for the previous period) – 1*100	Operating margin excluding gains on asset sales = ((operating profit - gains on sale of property, plant and equipment - gains on sale of investment properties and real estate held for sale)/revenue) *100
Earnings per share (EPS) = net profit attributable to equity holders of the parent / weighted average number of shares outstanding	Net margin = (net profit for the period/revenue)*100
Administrative expenses to revenue = (administrative expenses/ revenue)*100	Return on invested capital = ((profit before tax + interest expense)/ the period's average (interest-bearing liabilities + equity))*100
EBITDA = operating profit + depreciation and amortisation + impairment losses on goodwill	Return on equity = (net profit for the period/ the period's average total equity)*100
EBITDA margin = (EBITDA/revenue)*100	Equity ratio = (total equity/ total liabilities and equity)*100
Gross margin = (gross profit/revenue)*100	Gearing = ((interest-bearing liabilities – cash and cash equivalents)/ (interest-bearing liabilities + equity))*100
Operating margin = (operating profit/revenue)*100	Current ratio = total current assets/ total current liabilities

Order book

At 31 December 2012, our order book stood at 127,355 thousand euros, being 5% smaller than a year ago.

Partly, order book has decreased in connection with the performance of major contracts secured in 2011 (e.g. the design and build of the Aruvalla-Kose road section and construction of berths at Sillamäe port). Addition of large contracts is irregular. Initially new contracts increase the order book considerably (positive impact on order book), but as they are performed, their balance declines (negative impact on order book).

Some of the decline may also be attributed to changes taking place in the construction market. Due to market shrinkage, competition in the public buildings sub-segment has intensified, reducing the proportion of such contracts in our portfolio.

On the other hand, we have been able to increase our order book in the commercial and apartment buildings sub-segments (Buildings segment) and in other engineering (construction of water and wastewater networks) and environmental engineering sub-segments (Infrastructure segment). At the reporting date, the order book also included the outstanding balance of the Tivoli housing development project in Tallinn city centre of 12,814 thousand euros. On 4 February 2013, Tivoli Arendus OÜ sent us a notice of termination of the contract, which in our opinion is baseless. Accordingly, as at the date of release of this report Nordecon AS considers the notice of termination unfounded and the contract still effective. However, in light of the circumstances, we believe that it is unlikely that construction work can continue under the same contract.

As at 31 December	2012	2011	2010	2009	2008
Order book (EUR'000)	127,355	134,043	85,607	97,827	141,932

At 65% the Infrastructure segment continues to account for a major share of the total order book (31 December 2011: 80%).

Between the reporting date (31 December 2012) and the date of release of this report, Group companies have secured additional construction contracts of approximately 34,616 thousand euros. (1 January 2012 – 30 April 2012: 62,300 thousand euros).

People

We believe that Nordecon's most important assets are its people and that the value of the company depends on the professionalism, motivation and loyalty of our employees. Accordingly, the Group's management is committed to creating a contemporary work environment that fosters professional growth and development in terms of working conditions, career opportunities and nature of the work.

Staff and personnel expenses

At the end of 2012, the Group (the parent and the subsidiaries) employed, on average, 764 people including 367 engineers and technical personnel (ETP). In connection with growth in the Group's operating volumes, both the number of ETP and workers increased in 2012.

Average number of the Group's employees (comprising the staff of the parent and its subsidiaries):

Year	Engineers and technical personnel	Workers	Total average
2012	367	397	764
2011	351	380	731
2010	362	412	774
2009	467	661	1,128
2008	511	721	1,232

The Group's team is dynamic. The average age of Group entities' management personnel is slightly above 40 and that of ETP 36. On average, our employees have been with us for eight years and men and women account for 87% and 13% of the staff respectively.

The Group's personnel expenses for 2012 including all taxes totalled 16,803 thousand euros, 18% up on 2011 when personnel expenses were 14,225 thousand euros. The growth in personnel expenses is mainly attributable to performance pay provided to project staff and recognition of provisions for performance bonuses payable to our management and support staff. Selective salary increases had less impact.

In 2012, the service fees of the members of the council of Nordecon AS amounted to 141 thousand euros and associated social security charges totalled 47 thousand euros (2011: 69 thousand euros and 23 thousand euros respectively). The figure has increased in connection with the decision of Nordecon AS's annual general meeting to increase the council's fees as from 2012. Expenses on the provision made for performance bonuses that are calculated based on the Group's consolidated financial results amounted to 52 thousand euros and associated social security charges totalled 17 thousand euros (2011: no bonus provisions were made).

The service fees of the members of the board of Nordecon AS amounted to 248 thousand euros (including the service fees and termination benefits of the member of the management board that was removed on 30 April 2012) and associated social security charges totalled 82 thousand euros (2011: 238 thousand euros and 78 thousand euros respectively). Expenses on the provision made for performance bonuses that are calculated based on the Group's consolidated financial results amounted to 201 thousand euros (including the proportionate share of the member of the management board that was removed on 30 April 2012) and associated social security charges totalled 66 thousand euros (2011: no bonus provisions were made).

Labour productivity and labour cost efficiency

In 2012, our employees' nominal labour productivity grew by 3.3%, lagging somewhat behind revenue growth (8%). Management has acknowledged this. Improving labour productivity remains a priority and we see untapped resources in both general and daily construction management (including in IT development). Nominal labour cost efficiency has decreased due to the provision of performance bonuses, which were not paid in 2011.

In measuring operating efficiency, the Group uses the following productivity and efficiency indicators, which are based on the number of employees and personnel expenses paid:

	2012	2011	2010
Nominal labour productivity (rolling), (EUR'000)	208.7	202.3	128.3
Change against the comparative period, %	3.2%	57.7%	-6.3%
Nominal labour cost efficiency (rolling), (EUR'000)	9.5	10.4	6.9
Change against the comparative period, %	-8.6%	51.6%	3.0%

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

Employee training and education

Similarly to previous years, our training activities were aimed at providing further professional training and improving professional qualifications. We have over 80 ETP staff that have Civil Engineer IV, Diploma Civil Engineer V or some other certified qualification. In 2012, over 20 people acquired or improved their professional qualifications. We support gathering of personal references and encourage project managers and teams to implement new innovative technical solutions, which allow managing increasingly larger and more sophisticated projects. A lot of attention is paid to developing teamwork and intra-Group knowledge sharing.

The Group hires new specialists mostly from Tallinn University of Technology, Tallinn College of Engineering and the Estonian University of Life Sciences. In 2012, 70 of our ETP staff were studying at a higher education institution, over two thirds of them working for a master's and two for a doctor's degree. Altogether, 81% of our engineers and technical personnel have or are obtaining university-level education. We consider it crucial that students who are going to enter the labour market in the future should be able to gain hands-on industry experience as early as possible. In 2012, our companies provided industry training to more than 70 young people from different educational establishments. We had many trainees from Tallinn University of Technology and Tallinn College of Engineering as well as Järva County Vocational Training Centre and the Estonian University of Life Sciences.

Other human resource activities

Nordecon's employees are keen on sports – people from across the Group participate in SEB bank's running events Maijooks and Sügisjooks (May Run and Autumn Run). Several times a year, we organise kayaking and canoeing trips for smaller groups of enthusiasts as well as orienteering games and other events in picturesque places all over Estonia. Our staff play basketball and football on a weekly basis and we arrange joint visits to the football stadium, to support the Estonian national team.

Memorable events include joint visits to construction sites. For example, in summer 2012 we had a tour of our sites in eastern Virumaa and in autumn we visited the newly-completed buildings of Ämari air base.

We have a long-standing tradition of reviewing past performance and unveiling future plans at our annual Winter Seminar held in February. In recent years, the day-long event has taken place at Otepää and Pühajärve. There is always a guest speaker who talks on a subject of general interest. In past years, visitors have included Dr Urmas Varblane, professor of International Business at the University of Tartu, Jüri Raidla, senior partner at Law Office Raidla Lejins & Norcoux, Sandor Liive, chairman of the management board of Eesti Energia AS and many others.

Charitable activities and social responsibility

Nordecon values education, culture and community engagement. Every year we support numerous charitable organisations, projects and undertakings. Despite the challenging economic environment, in 2012 we allocated a total of 269 thousand euros to selected charitable causes. The figure for 2011 was 180 thousand euros.

We continued our work in *Companies against HIV*, a project launched in 2007 in partnership with the Healthy Estonia Foundation and Swedbank, Statoil, TNS Emor and Hill & Knowlton for increasing awareness about HIV and combating the epidemic by involving the private sector. On joining the project, Nordecon undertook to disseminate information about HIV within the Group and to support relevant community programmes, particularly those aimed at people of employable age.

In the field of education, we made larger donations to the Development Foundation of Tallinn University of Technology (bachelor's and doctor's degree scholarships) and Nõmme Private School Foundation.

Our companies were generous sponsors of sports. We have cooperation agreements with the Estonian Ski Association (for supporting youth sports), sports club Duo (volleyball club Bigbank Tartu) and the basketball club of Tallinn University of Technology. In addition, the Group supported world discus champion and winner of the 2008 Beijing Olympics Gerd Kanter.

Under long-term partnership agreements, Nordecon supports Tallinn City Theatre, Tallinn University of Technology and various other cultural and social institutions and establishments. For example, we have committed ourselves to a 10-year programme of financing the acquisition of new equipment for the Strength of Materials Laboratory of the Faculty of Civil Engineering at Tallinn University of Technology in order to provide future civil engineers with contemporary research and development opportunities.

For years, we have contributed to the development of Estonian defence forces. Through a programme steered together with the National Defence Promotion Foundation, Nordecon supports recognition of the best officer and the best non-commissioned officer serving in the Estonian defence forces.

Share and shareholders

Share information

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

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

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

Summarised trading results

Share trading history

Price (EUR)	2012	2011	2010	2009	2008
Open	0.92	1.38	1.62	1.05	4.89
High	1.26	1.50	2.60	1.87	4.89
Average	1.02	1.16	1.53	1.07	2.97
Low	0.88	0.88	1.05	0.55	0.95
Last closing price	1.16	0.90	1.40	1.58	1.02
Traded volume (number of securities traded)	3,425,060	4,161,002	8,237,449	9,627,956	6,447,283
Turnover, in EUR millions	3.77	5.08	12.70	12.03	20.05
Listed volume (31 Dec), in thousands	30,757	30,757	30,757	30,757	30,757
Market capitalisation (31 Dec), in EUR millions	35.68	27.68	43.03	48.60	31.37

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

Ratio	2012	2011	2010	2009	2008
P/E	23.2	-*	-*	-*	3.4
P/B	1.3	1.1	1.3	1.1	0.6

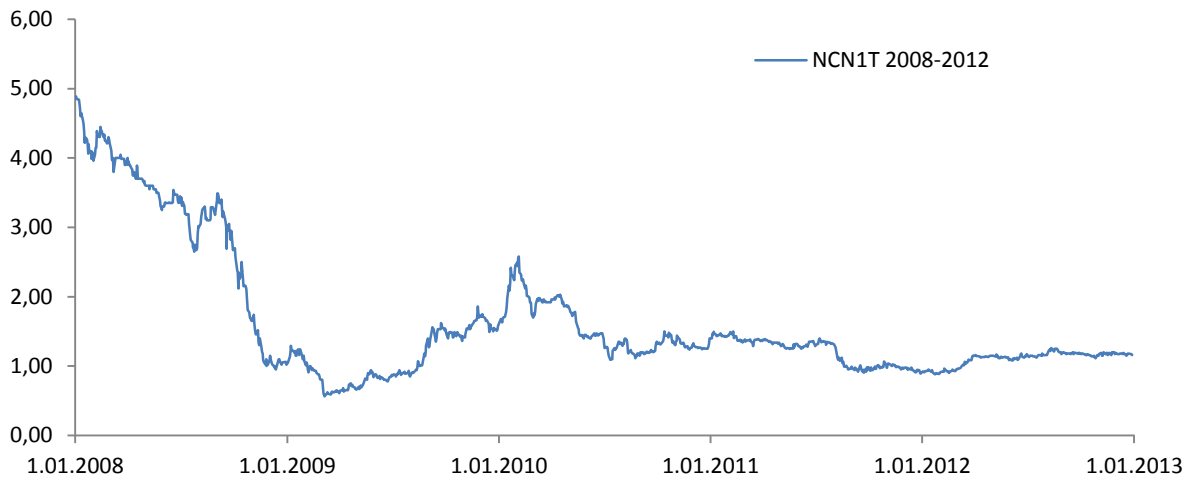
* The P/E ratio is not calculated when earnings per share are negative.

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

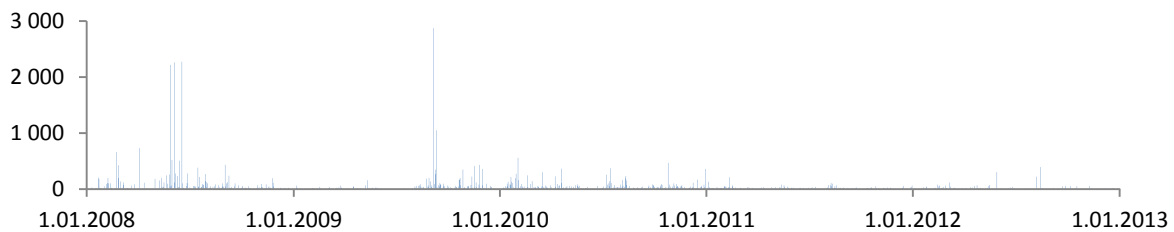
P/B = last closing price of the share / (equity attributable to equity holders of the parent / number of shares outstanding)

Movements in the price and turnover of the Nordecon AS share in 2008-2012

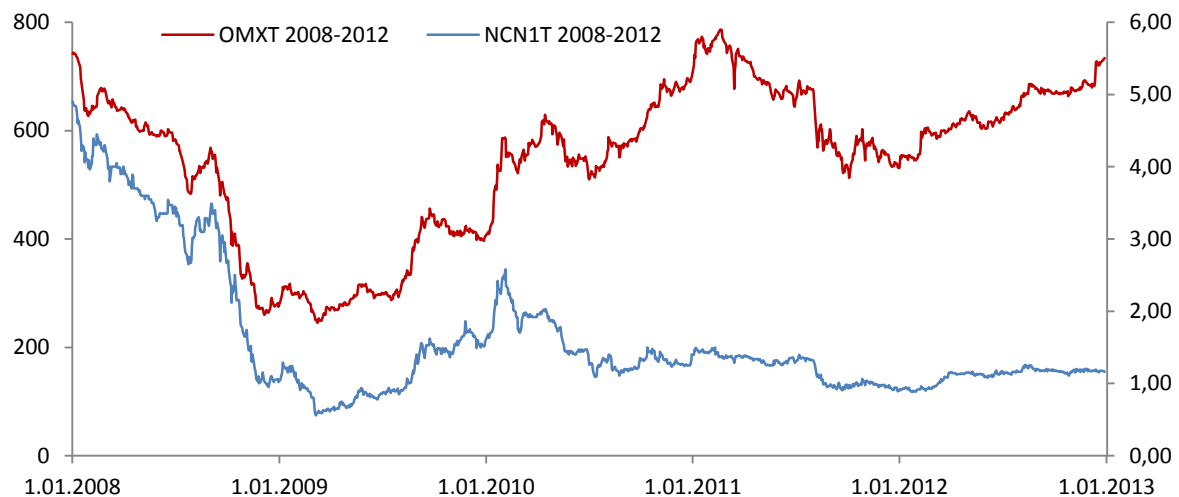
Movements in share price in euros



Daily turnover in thousands of euros



Movement of the share price compared with the OMX Tallinn index in 2008-2012



Index/equity	1 January 2008*	31 December 2012	+/-%
OMX Tallinn	742.45	734.20	-1.11
NCN1T	4.90 EUR	1.16	-76.33

* Closing price at the NASDAQ OMX Tallinn Stock Exchange at 31 December 2007

Shareholder structure

Largest shareholders at 31 December 2012

Shareholder	Number of shares	Ownership interest (%)
AS Nordic Contractors	16,507,464	53.67
ING Luxembourg S.A.	2,007,949	6.53
Skandinaviska Enskilda Banken Swedish clients	1,589,458	5.17
Luksusjaht AS	1,548,125	5.03
SEB Pank AS clients	618,762	2.01
State Street Bank and Trust Omnibus Account A Fund	597,464	1.94
Ain Tromp	578,960	1.88
ASM Investments OÜ	519,600	1.69
SEB Elu- ja pensionikindlustus AS	262,700	0.85
Skandinaviska Enskilda Banken Finnish clients	257,410	0.84

Shareholder structure by ownership interest at 31 December 2012

	Number of shareholders	Ownership interest (%)
Shareholders with interest exceeding 5%	4	70.40
Shareholders with interest between 1% and 5%	4	7.53
Shareholders with interest below 1%	1,958	22.07
Total	1,966	100.00

Shareholder structure by business line and legal form at 31 December 2012

Business line and legal form	Number of shares	Ownership interest (%)
Companies (legal persons)	20,221,137	65.75
Financial institutions (banks, investment funds)	6,245,168	20.31
Individuals	3,747,523	12.18
Insurance companies	542,900	1.77
Total	30,756,728	100.00

Shareholder structure by country of shareholder's location at 31 December 2012

Country of location	Number of shares	Ownership interest (%)
Estonia	25,013,593	81.33
Luxembourg	2,086,259	6.78
Sweden	2,063,030	6.71
USA	809,593	2.63
Lithuania	359,620	1.17
Great Britain	144,709	0.47
Finland	122,040	0.40
Latvia	28,684	0.09
Other countries	129,200	0.42
Total	30,756,728	100.00

Shares controlled by members of the council of Nordecon AS at 31 December 2012

Council		Number of shares	Ownership interest (%)
Toomas Luman (AS Nordic Contractors, OÜ Luman ja Pojad)*	Chairman of the Council	16,574,144	53.89
Ain Tromp	Member of the Council	578,960	1.88
Alar Kroodo (ASM Investments OÜ) ⁴	Member of the Council	519,600	1.69
Andri Hõbemägi	Member of the Council	50,000	0.16
Tiina Mõis	Member of the Council	0	0.00
Meelis Milder	Member of the Council	0	0.00
Total		17,722,704	57.62

* Companies controlled by the individual

Shares controlled by members of the board of Nordecon AS at 31 December 2012

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

* Companies controlled by the individual

Members of the board and council of Nordecon AS and companies controlled by them have not been granted any share options under which they could acquire shares in Nordecon AS in a subsequent period.

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 the transfer of the shares.

Dividend policy

Dividends distributed by Nordecon AS in previous years:

Year of payout	Total dividends paid EUR '000	Number of shares, in thousands	Dividend per share EUR	Dividend payout ratio *
2006	1,917	3,482	0.55	34.6%
2007	2,949	15,378	0.19	26.1%
2008	5,897	30,757	0.19	34.5%
2009	1,966	30,757	0.06	21.1%
2010	0	30,757	0	0%
2011	0	30,757	0	0%
2012	0	30,757	0	0%

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

Despite the profit earned in the reporting period, the company's equity has not reached a level that would allow distributing dividends. The board proposes that no dividends be distributed for 2012.

To date dividend distributions have been determined primarily by reference to:

- the dividend expectations of the ultimate controlling party AS Nordic Contractors;
- the overall rate of return on the (Estonian) securities market;
- the optimal ratio and volume of debt and equity capital that is required for the Group's profitable growth and sustainable development.

Members of the council and board of Nordecon AS

Council

The council has six 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 a majority 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 activities of the Group as a member of the board or council for almost 25 years. Besides construction companies, he has held senior positions at various other enterprises (AS Tallinna Kaubamaja, AS E-Betoonelement, OÜ Väokivi, AS Eesti Energia, 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 17 years he has led the Estonian Chamber of Commerce and Industry and 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-zone. 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). He has been awarded the Order of the White Star of the Republic of Estonia (Fifth Class, Third Class and First Class) and he has received various awards from the Estonian defence forces, the Estonian National Defence League and other state and non-profit organisations. He has also received state awards from several foreign countries.

Membership in the governing bodies of other organisations: OÜ Luman ja Pojad and its subsidiaries and associates (including the board of AS Nordic Contractors), Eesti Energia AS (council), Estonian Chamber of Commerce and Industry (chairman of the board), Tallinn Yacht Club, Nõmme Private Education Foundation, Foundation for Promoting National Defence, Development Foundation of Tallinn University of Technology, Board of Governors of Tallinn University of Technology (chairman), Centre for Strategic Initiatives, Cultural Foundation of the President of the Republic, Alumni Association of Tallinn University of Technology

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

Alar Kroodo (vice-chairman of the council) – representative of small shareholders

An industrial and civil engineering graduate of Tallinn Polytechnic Institute (today: Tallinn University of Technology), Alar Kroodo has been actively engaged in the construction business for over 30 years, mainly in southern Estonia. He was manager of the construction enterprise Tartu Ehitustrusti Ehitusvalitsus and in 1992 established AS Linnaehitus (later renamed Nordecon Ehitus AS) where he worked as chairman of the board until 2003. Since then, he has been actively involved in the control functions of the Nordecon entities (Nordecon Ehitus AS, chairman of the council 2003-2009). He is an active member of the community – he participates in the activities of the Tartu Rotary Club and has participated in the management of the Estonian Association of Construction Entrepreneurs as well as various sports associations. He has been awarded the Order of the White Star of the Republic of Estonia (Fourth Class) and the badge of honour of the Estonian Chamber of Commerce and Industry (First Class).

Membership in the governing bodies of other organisations: AS Nordic Contractors (council), ASM Investments OÜ and its subsidiaries and associates (board/council)

Interests (exceeding 5%) in other companies: ASM Investments OÜ and its subsidiaries and associates

Andri Hõbemägi – representative of AS Nordic Contractors

Andri Hõbemägi is an economics graduate of Tallinn University of Technology. From 1993 to 2001 he worked for AS Hansapank (later renamed AS Swedbank). From 2001 to 2002 he was the executive manager of football club FC Flora. In 2002 he became the 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 majority shareholder of Nordecon AS. His community activities are aimed at the development of Estonian football and regional education.

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

Interests (exceeding 5%) in other companies: none

Tiina Mõis – independent member (as per corporate governance recommendations of the stock exchange)

Tiina Mõis is a *cum laude* economics graduate of Tallinn Polytechnic Institute (today: Tallinn University of Technology). Between 1980 and 1999 she was chief accountant of various companies, the best-known of them AS Hansapank (later renamed AS Swedbank) where she was also a board member from 1995 to 1998. As a member of the council, she remained involved with AS Hansapank until 2005. Currently she is the CEO of investment firm AS Genteel. In addition, she is a member of the council of many large Estonian companies. Tiina Mõis is an active member of many social and community organisations that contribute to the development of entrepreneurship, education, health and sports in Estonia. She has been awarded the Order of the White Star of the Republic of Estonia (Fourth Class).

Membership in the governing bodies of other organisations: AS Genteel and its subsidiaries and associates (board/council), AS Baltika (council), AS LHV Group (council), AS LHV Pank (council), AS Martinson Trigon (council), HTB Investeeringute AS (council), Rocca al Mare Kooli AS (council), Rocca al Mare School Foundation (council), Estonian Chamber of Commerce and Industry, Alumni Association of Tallinn University of Technology, Development Foundation of Tallinn University of Technology

Interests (exceeding 5%) in other companies: AS Genteel and its subsidiaries and associates

Meelis Milder – independent member (as per corporate governance recommendations of the 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 of AS Baltika, which is listed on the NASDAQ OMX Tallinn Stock Exchange, and a member of the council of AS Tallinna Kaubamaja, also listed on the NASDAQ OMX Tallinn Stock Exchange. He has been awarded the Order of the White Star of the Republic of Estonia (Fourth Class).

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

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

Ain Tromp – representative of small shareholder / independent member (as per corporate governance recommendations of the stock exchange)

Ain Tromp is a building engineering graduate of Tallinn Polytechnic Institute (today: Tallinn University of Technology). Since the 1980s he has been involved in the road construction business (Harju Road Administration and road repair and construction enterprise Teede Remondi ja Ehituse Trust). Between 1990 and 2007 he was the CEO and later until 2009 chairman of the council of AS Aspi (later renamed Nordecon Infra AS). From 1997 to 2011 Ain Tromp was on the board of the Estonian Asphalt Pavement Association. He has been awarded the Order of the White Star of the Republic of Estonia (Fourth Class).

Membership in the governing bodies of other organisations: none

Interests (exceeding 5%) in other companies: none

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

Changes on the board of Nordecon AS in 2012

In connection with the need to further streamline the Group's management structure and improve governance of the core business, on 30 April 2012 the council of Nordecon AS resolved to change the composition of the board. By the change, management of the core operating activities was reassigned from two board members to one. The council recalled from the board Marko Raudsik who was responsible for the Buildings segment. As from 1 May 2012, all core operating activities are the responsibility of Erkki Suurorg who was previously responsible for the Infrastructure segment. The Group's organisational structure was adjusted in line with the resolution. The council did not make any other changes to the composition of the board or the responsibilities of board members.

Jaano Vink, chairman of the board

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

Membership in the governing bodies of other organisations: subsidiaries of Nordecon AS (board/council), Estonian Association of Construction Entrepreneurs (board), Healthy Estonia Foundation (council)

Interests (over 5%) in other companies: none

Avo Ambur, member of the board

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

Membership in the governing bodies of other organisations: none

Interests (over 5%) in other companies: none

Erkki Suurorg, member of the board

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

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

Interests (over 5%) in other companies: none

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

Description of the main risks

Business risks

The main factors, which affect the Group's business volumes and profit margins, are competition in the construction market and changes in the demand for construction services. In addition, in the region where the Group operates construction operations are influenced by seasonality caused by the change of seasons.

The Group acknowledges the risks inherent in the execution of contracts concluded in an environment of stiff competition. Securing a long-term construction contract at an unreasonably low price in a situation where input prices are rising involves as high risk because the contract may quickly start generating a loss.

In the coming years, the Estonian construction market will depend mainly on public sector investments. A significant proportion of those investments will be funded with the assistance of the EU structural funds. The availability of EU support is relatively certain until the end of the current budget period (2007-2013). However, the allocations remaining for the last year of the budget period are smaller than in the previous years, which means, that the number of new projects started in 2013 will decrease significantly. The expenditures of the EU financial framework for 2014-2020 that will be designated for investments involving construction work are still unclear. Although the amounts allocated to Estonia under the cohesion policy programmes are expected to have increased, the national priorities may have changed. Nevertheless, the planned investments will have a significant and direct impact on the business volumes of construction companies

The impacts of seasonality are the strongest in the Infrastructure segment where a lot of work is done outdoors (road and port construction, surface works, etc). In order to disperse the risk, the Group has secured road maintenance contracts that generate year-round business. According to its business strategy, the Group counteracts seasonal fluctuations in its infrastructure operations with building construction operations that are less exposed to seasonality. Thus, the Group endeavours to keep the operating volumes of the two segments in balance (see also the chapter *Performance by business line*). In addition, Group companies consistently seek new technical solutions that would yield greater efficiency under changeable weather conditions.

Termination of criminal proceedings against Nordecon AS and a member of its board

On 26 September 2012, the Public Prosecutor's Office issued a ruling that terminated the criminal proceedings instituted against Nordecon AS and a member of its management board, Erkki Suurorg, in November 2010.

The criminal matter concerned the first procurement of services for the design and build of the Aruvalla-Kose road section arranged by the Estonian Road Administration. In connection with the procurement, Erkki Suurorg and Nordecon AS (at the time Nordecon Infra AS) were charged with suspicion of attempting to conclude an agreement for distorting competition and to engage in concerted practices, as well as of attempting to offer a bribe, which in the course of the proceedings was reclassified to an attempt to grant gratuities.

Criminal proceedings concerning the attempt to grant gratuities were terminated by the Public Prosecutor's Office already earlier, with a ruling issued on 20 June 2012. In the final ruling, the Public Prosecutor's Office found, based on evidence gathered, that the suspicions brought against Erkki Suurorg and Nordecon AS had no basis and terminated the criminal proceedings against them in their entirety.

Operational risks

To manage their daily construction risks, Group companies purchase contractors' all risks insurance. Depending on the nature of the project and the requests of the customer, both general frame agreements and special, project-specific contracts are used. In addition, as a rule, subcontractors are required to secure performance of their obligations with a bank guarantee provided to a Group company or the Group retains part of the amount payable until the completion of the contract. To remedy builder-caused deficiencies, which may be detected during the warranty period, Group companies create warranty provisions based on their historical experience. At 31 December 2012, the Group's warranties provisions (including current and non-current ones) totalled 1,407 thousand euros. At 31 December 2011, the corresponding figure was 1,192 thousand euros.

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

Financial risks

Credit risk

In the reporting period, the Group did not recognise any significant credit losses. The credit risk exposure of the Group's receivables continued to be low because the proportion of public sector customers that receive their financing from the state and local governments as well as the EU structural funds was high. The main indicator of the realisation of credit risk is settlement default that exceeds 180 days coupled with no activity on the part of the debtor that would confirm the intent to settle.

In 2012, credit losses on the write-down of receivables totalled 239 thousand euros (2011: gain on the reversal of prior write-downs totalled 8 thousand euros).

The Group has recognised a trade receivable of approximately 2.4 million euros (includes a portion of late payment interest) due from the customer of the exhibition building of the Estonian Maritime Museum. Under the contract, determination of whether the claim has merit is at the discretion of the Arbitration Court of the Estonian Chamber of Commerce and Industry. The Group's management is convinced that the claim has merit and has therefore not written the receivable down. Most probably the case will be ruled upon in 2013.

Liquidity risk

The Group remains exposed to higher than average liquidity risk resulting from a mismatch between the long settlement terms demanded by customers (mostly 45 to 56 days but sometimes up to 100 days) and increasingly shorter settlement terms negotiated by subcontractors (mostly 21 to 45 days). The Group counteracts the differences in settlement terms by using factoring where possible.

The Group continues to work with the banks in implementing its financing program for 2011-2014, which was developed with the assistance of one of the world's leading consulting firms, Roland Berger Strategy Consultants. In line with the program, in 2012 the banks supported the Group's liquidity position by refinancing long-term loans and granting repayment holidays for loan principal. In addition, the banks granted the Group additional short-term overdraft facilities of approximately 6.2 million euros for raising working capital. The Group repaid the short-term loans received under the financing program by the year-end, which increases the probability that relevant limits will be made available again in 2013.

At 31 December 2012, the Group's current assets exceeded its current liabilities 1.08-fold (31 December 2011: 1.14-fold). Bank loans accounted for a significant proportion of current liabilities. In accordance with IFRS EU, loan commitments have to be classified into current and non-current liabilities based on the contractual conditions effective at the reporting date. Although, based on its agreements with the banks, the group believes that it is likely that its overdraft liabilities and other short-term loans will be refinanced for another 12 months, relevant decisions will be made in 2013 when the loans fall due. Thus, at the year-end, the liabilities constituted current items. According to the Group's assessment, it can refinance short-term loans of 19,001 thousand euros of which repayment of 13,415 thousand euros will be deferred to 2014. This will improve the Group's liquidity position and relevant ratios significantly (for further information, see note 5 *Financial risk management – Liquidity risk*).

At the reporting date, the Group's cash and cash equivalents totalled 10,231 thousand euros (31 December 2011: 9,908 thousand euros).

Interest rate risk

The Group's interest-bearing liabilities to banks have both fixed and floating interest rates. Finance lease liabilities have mainly floating interest rates. The base rate for most floating rate contracts is Euribor. At 31 December 2012, the Group's interest-bearing loans and borrowings totalled 30,856 thousand euros, an increase of 2,213 thousand euros year over year. Interest expense for 2012 amounted to 1,097 thousand euros. Compared with 2011, interest expense increased by 104 thousand euros. The Group's interest rate risk results mainly from a rise in the base rate for floating interest rates (Euribor/EONIA). The risk is mitigated by fixing, where possible, the interest rates of liabilities during the period of low market interest rates.

The Group has not acquired any derivatives for hedging the risks arising from instruments with a floating interest rate.

Currency risk

As a rule, the prices of construction contracts and subcontracts are fixed in the currency of the host country, i.e. in euros (EUR) and in Ukrainian hryvnas (UAH). From the beginning of 2012 the Group was not exposed to currency risks related to the Belarusian ruble (BYR) because the Group practically discontinued its operations in Belarus.

The exchange rate of the Ukrainian hryvna against the euro has been stable since 2010. In 2012, fluctuations in the euro-hryvna exchange rate remained below 10%. The Group's net foreign exchange loss for 2012 was 95 thousand euros (2011: a net foreign exchange gain of 168 thousand euros).

Since Estonia's adoption of the euro at the beginning of 2011, the Group's Finnish operations do not involve a currency risk. Nor does the Group have any currency risk in Lithuania where operations have been suspended. Currency risk is reduced by the fact that the prices of construction materials and services that the Group's Estonian entities purchase from abroad are mostly denominated in euros.

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

Outlooks of the Group's geographical markets

Estonia

Processes and developments characterising the Estonian construction market in 2013

- Construction volumes will be larger in the infrastructure segment but the segment's lead over building construction will diminish at an increasing pace. Private sector investments, which will grow compared with 2012, will mostly be channelled to the buildings segment. Moreover, the public sector will contribute to building construction through two major contracts - the construction of a new main building of the Estonian National Museum and the Maarjamõisa medical campus of Tartu University Hospital. The turnover of the infrastructure segment, on the other hand, will be undermined by the depletion of funds allocated from the EU budget for the period 2007-2013.
- The construction market will remain disproportionately reliant on public procurement and projects executed with the support of the EU structural funds. In the last year of the EU budget period, the volume of new procurements will decrease because most funds have already been allocated. Co-financing terms generally require that a project should be completed during the budget period. Thus, most of the remaining procurements will be announced in the first half of 2013. This means that in the second half of the year public procurement of construction work may plummet. The EU financial framework 2014-2020 has still not been finalised. This increases uncertainty about how the construction market will develop in 2014 and forces companies to make their decisions based on shorter-term prospects.
- The industry will see further consolidation, particularly in the field of general contracting in building construction where the number of medium-sized operators (annual turnover of around 15-40 million euros) is still too large. Based on the past three years' experience it is likely that stiff competition and insufficient demand will induce some general contractors to go slowly out of business or shrink in size rather than merge with another or exit the market. However, it will also become increasingly common that two to four smaller players that are seeking ways to remain in business will form a consortium to bid for major procurement contracts, meet stringent tendering conditions and secure the required funding.
- Competition will intensify in all segments of the construction market. The average number of bidders for a contract has increased and there is already a notable gap between the lowest bids made by the winners and the average bids. The situation is somewhat similar to 2009 when anticipation of a fall in demand caused a rapid decline in construction prices, which triggered a slide in the prices of many construction inputs. However, currently the prices of construction inputs do not seem to decrease so massively and companies that are banking on this in the bidding phase may run into difficulty. Profit margins are already under strong competitive pressure.
- In new housing development, the success of a project will depend on the developer's ability to control the input prices included in its business plan and thus to set an affordable sales price. Although the overall situation is improving steadily, the offering of new residential real estate cannot be increased dramatically because the prices of new apartments are relatively high compared with the standard of living and the banks' lending terms remain strict. Similarly to the previous year, successful projects will include those that create or fill a niche.
- The contracts signed with public sector customers will continue to impose tough conditions on construction companies: extensive obligations, strict sanctions, various financial guarantees, extremely long settlement terms, etc. Contractors cannot implement more optimal solutions identified in the construction phase that would reduce the construction or operating costs of the procured asset without sanctions because procurement terms do not allow this. In a situation where public procurement is based on underbidding, the above factors increase the risks of all market participants.

- The prices of construction inputs will remain relatively stable. Local subcontracting prices may decrease due to weakening demand but, taking into account the subcontractors' financial and human resources, the decline cannot be substantial or long-lasting. In some areas, price fluctuations continue to be unpredictable and, thus, notably greater and hard or even impossible to influence (petroleum and metal products, some materials and equipment).
- The situation in the labour market will be comparatively stable. There is still a shortage of qualified labour (including project and site managers) but construction companies, which have to maintain tight cost control, are not ready for a general rise in the base wage. However, as the standard of living is falling, pressure for a wage increase will remain strong. Labour migration to the Nordic countries will also remain steady and despite certain market shrinkage (particularly in Finland), the number of job seekers is not expected to increase.

Latvia and Lithuania

In our opinion, the Latvian construction market, which was hit by a severe downturn a few years ago, has not regained sufficient stability and similarly to Estonia in 2013 it will probably see shrinkage in public sector demand. Therefore, the Group is not going to enter to the Latvian construction market permanently in 2013.

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

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

Ukraine

The Group operates in Ukraine as a general contractor and project manager in the segment of commercial buildings and production facilities, offering its services primarily to foreign private sector customers. In the past three years, there have been practically no private sector customers in that segment. Regardless of this, we will continue our business in Ukraine in 2013. There are some signs that investment activity in Ukraine may pick up in 2013 although the economic and political risks do not allow us to expect any rapid changes. We will monitor the situation in the Ukrainian construction market closely and will be ready to carry out additional restructuring at the companies involved. We will continue seeking opportunities for exiting the conserved real estate projects or signing a construction contract with a potential new owner.

Finland

In the Finnish market we offer mainly subcontracting services in the field of concrete works but based on experience gained, we are going to deliver some more complex services in 2013. The local concrete works market provides opportunities for competing for projects where the customer wishes to purchase all concrete works from one reliable company. Nevertheless, we will maintain a rational approach and will avoid taking excessive risks. We are not planning to penetrate other segments of the Finnish construction market (general contracting, project management, etc).

Corporate governance report

Nordecon AS has observed the corporate governance recommendations (the CGR) promulgated by the NASDAQ OMX Tallinn Stock Exchange since the flotation of its shares on the NASDAQ OMX Tallinn Stock Exchange on 18 May 2006. This report provides an overview of the governance of Nordecon AS in 2012 and its compliance with the requirements of the CGR. It is recommended that an issuer comply with the CGR or explain any non-compliance in its corporate governance report. In 2012, Nordecon AS observed the CGR except where 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 provided 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 the allocation of profits, amend the articles of association, appoint the auditors, and elect the 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 allows the majority of shareholders to participate in 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 announcement of the general meeting. The company replies to all relevant questions before the general meeting on its website or during the meeting when the respective agenda item is discussed. In 2012, shareholders did not ask any questions about the agenda items before the general meeting. All questions and answers are available on the website until the information on the next general meeting is published.

In 2012, the company was represented at the general meeting by the chairman of the board Jaano Vink who attended the meeting and was available to the shareholders during the meeting.

The company's articles of association do not grant different rights to shares of different type, which might result in a disproportionate treatment of shareholders upon voting. 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 2012, Nordecon AS complied with the subsections of section 1.1 of the CGR 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 28 May 2012. 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. There were no extraordinary general meetings in the reporting period.

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

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

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

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

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

In 2012, Nordecon AS complied with the subsections of section 1.2 of the CGR 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 board. In 2012, the general meeting was chaired by a person not connected with the company.

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 2012, the general meeting was attended by the chairman of the board Jaano Vink, the chairman of the council Toomas Luman, members of the council Alar Kroodo and Andri Hõbemägi and authorised public accountant Andres Root.

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

In 2012, Nordecon AS complied with the subsections of section 1.3 of the CGR, except for 1.3.3. The company has not considered it practicable to make the annual general meeting available to observers and participants via the Internet.

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 alone. The board acts in the best interests of the company and all its shareholders and undertakes to ensure that the company will develop 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 field of activity.

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

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

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

In 2012, the board and council of Nordecon AS exchanged information in accordance with effective requirements. The board informed the council of the Group's performance and financial position on a regular basis.

In 2012, Nordecon AS complied with the subsections of section 2.1 of the CGR that relate to the 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 for the cooperation of members of the board. A member of the company's board may be a member of the council of another entity belonging to the company's group. The chairman of the council signs a service contract with a member of the board.

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

In 2012, the board had the following members:

Name	Position/Area of responsibility	Beginning of term of office	Expiry of term of office
Jaano Vink	Chairman of the Board General management of the company	5 August 2002	31 July 2014
Avo Ambur	Member of the Board Management of sales and pre-construction activities	1 January 2011	31 December 2013
Erkki Suurorg	Member of the Board Management of the Infrastructure segment (until 30 April 2012)	1 January 2011	31 December 2013
Marko Raudsik	Member of the Board Management of the Buildings segment (until 30 April 2012)	1 January 2011	30 April 2012

In connection with the need to further streamline the Group's management structure and improve governance of the core business, on 30 April 2012 the council of Nordecon AS resolved to change the composition of the board. By the change, management of the core operating activities was reassigned from two board members to one. The council recalled from the board Marko Raudsik who was responsible for the Buildings segment. As from 1 May 2012, all core operating activities are the responsibility of Erkki Suurorg who was previously responsible for the Infrastructure segment.

Remuneration of the board

A member of the board is paid a monthly service fee, which is fixed in the service agreement. The council decides the remuneration of the members of the board based on an evaluation of their performance. The council evaluates a board member's performance by taking into account the board member's responsibilities and performance, the performance of the entire board as well as the company's financial position, current financial performance and future prospects and, if necessary, compares the latter 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 agreement, a member of the board may also be eligible for the following additional monetary incentive payments:

- Performance pay for achieving the targets set for the financial year. The basis for performance pay is consolidated EBITDA (operating profit plus amortisation and depreciation expense) before the effect of the performance pay of members of the management board. Any EBITDA that exceeds the target EBITDA is linkable to a coefficient. Performance pay is calculated by multiplying the service fee with the coefficient. The coefficient does not allow assigning board members performance pay that exceeds the difference between the target EBITDA and actual EBITDA.

Board members will not be eligible for performance pay if the target for the year is not achieved and/or performance pay was assigned based on data that proved (e.g. after the audit) materially inaccurate.

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

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

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

A board member will not be eligible for termination benefits if the service agreement 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 agreement, or the board member's activities have caused direct damage to the company.

At the reporting date, the company did not have long-term bonus programs for members of the board (pension plans) and had not issued share options to members of the board. Board members do not receive any significant non-monetary benefits. Nor is the remuneration of the board linked to changes in the company's share price.

In 2012, the service fees of the members of the board of Nordecon AS amounted to 248 thousand euros (including the service fees and termination benefits of the member of the management board that was removed on 30 April 2012) and associated social security charges totalled 82 thousand euros (2011: 238 thousand euros and 78 thousand euros respectively). Expenses on the provision made for performance bonuses that are calculated based on the Group's consolidated financial results amounted to 201 thousand euros (including the proportionate share of the member of the management board that was removed on 30 April 2012) and associated social security charges totalled 66 thousand euros (2011: no bonus provisions were made).

In 2012, Nordecon AS complied with the subsections of section 2.2 of the CGR, 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 in a competitive situation this constitutes sensitive information.

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 company's council. In the reporting period, members of the board did not request the council's permission for engaging in competing activities.

Members of the board 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 transactions.

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

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

In 2012, Nordecon AS complied with the subsections of section 2.3 of the CGR 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 evaluates 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 pertaining 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, which may affect the company's development and management. The chairman of the council conveys the information to the council and, where necessary, calls an extraordinary meeting of the council.

The work of the council is organised by the chairman. The chairman of the council determines the agenda of council meetings, chairs council meetings, monitors the effectiveness of the work of the council, organises swift delivery of information to members of the council, ensures that members of the council have sufficient time for preparing a resolution and reviewing the information received and represents the company in relations with the company's board.

In 2012, Nordecon AS complied with the subsections of section 3.1 of the CGR 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 exact number is decided by the general meeting. Members of the council are elected by the general meeting for a term of five years. Members of the council elect a chairman from among themselves. In 2012, the council had the following members:

Name	Position	Beginning of term of office	Expiry of term of office
Toomas Luman	Chairman of the Council, representative of AS Nordic Contractors	9 January 2006	13 May 2015
Alar Kroodo	Vice-chairman of the Council, representative of small shareholders	9 January 2006	13 May 2015
Andri Hõbemägi	Member of the Council, representative of AS Nordic Contractors	14 May 2008	13 May 2013
Tiina Mõis	Member of the Council, independent	9 January 2006	13 May 2015
Meelis Milder	Member of the Council, independent	9 January 2006	13 May 2015
Ain Tromp	Member of the Council, independent	9 January 2006	13 May 2015

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.

On 28 May 2012, the general meeting of Nordecon AS resolved to change the remuneration of the members of the council, which had been put in place in 2006. From 1 January 2012, the chairman's monthly basic service fee is 5,700 euros, the vice-chairman's basic monthly service fee is 2,850 euros and the basic monthly service fee of each of the other council members is 800 euros. In addition, the general meeting resolved to create a performance pay system for the chairman and vice-chairman of the council. The performance pay is linked to achievement of Nordecon AS's targets for the financial year and it is calculated and paid on the same basis as the performance pay of the board of Nordecon AS. The performance pay provided to the chairman and vice-chairman of the council may not exceed two thirds and one third respectively of the performance pay calculated for a member of the board.

In 2012, the service fees of the members of the council of Nordecon AS amounted to 141 thousand euros and associated social security charges totalled 47 thousand euros (2011: 69 thousand euros and 23 thousand euros respectively). The figure has increased in connection with the decision of Nordecon AS's annual general meeting to increase the council's fees as from 2012. Expenses on the provision made for performance bonuses that are calculated based on the Group's consolidated financial results amounted to 52 thousand euros and associated social security charges totalled 17 thousand euros (2011: no bonus provisions were made).

In 2012, Nordecon AS complied with the subsections of section 3.2 of the CGR that relate to council members' responsibilities.

Conflicts of interest

Members of the council avoid conflicts of interest. In their activity as members of the council, they 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 2012, there were no conflicts of interest in council members' work or relations with the company.

In 2012, Nordecon AS complied with the subsections of section 3.3 of the CGR that relate to council members' responsibilities.

Cooperation of the board and the council

The company's board and council cooperate in ensuring ongoing and effective information exchange. Members of the board participate in quarterly council meetings that review the company's 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 2012, the board and the council worked closely in monitoring completion of the company's development plan and achievement of the company's strategic objectives for 2010-2013. 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 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 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 the confidentiality requirements, which ensure control over the transfer of price sensitive information.

In 2012, Nordecon AS complied with the subsections of sections 4.1 to 4.3 of the CGR that relate to cooperation between the board and the council.

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 any undue delay. Observance of the equal treatment principle does not revoke the right to postpone the disclosure of inside information or the right to provide unpublished inside information to persons entitled to it.

The main information channels that the company uses for notifying shareholders and investors are the information system of the NASDAQ OMX Tallinn Stock Exchange and the company's website at www.nordecon.com. In those channels, information is released simultaneously in Estonian and in English.

The company discloses information in accordance with the rules of the NASDAQ OMX Tallinn Stock Exchange and the provisions of the Estonian Securities Act. In 2012, the company's threshold for notifying of significant construction contracts was 3.2 million euros. In 2012, Nordecon AS made 25 stock exchange announcements that were released concurrently via the information system of the NASDAQ OMX Tallinn Stock Exchange and the company's website.

Nordecon AS has disclosed on its website and via a separate announcement in the information system of the stock exchange its financial calendar, which outlines the dates on which information will be released during the year (including annual and interim reports and the notice of the annual general meeting). In addition, the company has made available on its website the information (specific reports and data) listed in section 5.3 of the CGR.

Meetings with investors and financial analysts

Meetings with investors are organised as and when requested by investors. Nordecon AS exchanges information with journalists and analysts with due care and deliberation using appointed spokespersons. In communicating with analysts, the company refrains from actions that might 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 report) was released.

The presentations used at meetings with investors are published through 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 2012, Nordecon AS complied with chapter 5 of the CGR that relates to disclosure of information, except for the following sections.

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

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

Financial reporting and auditing

Financial reporting

Preparation of financial reports and statements is the responsibility of the board of Nordecon AS. The consolidated financial statements of Nordecon AS are prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS EU). The financial statements are prepared and submitted for approval in conformity with the Estonian Accounting Act, the rules of the OMX Tallinn 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 approved 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 annual report financial information on companies that have not been consolidated but in which the company has a significant interest (note 13) and transactions with shareholders (note 38).

In 2012, Nordecon AS complied with the subsections of section 6.1 of the CGR, except for 6.1.1, that relate to financial reporting.

The council did not deem it necessary to invite the auditor to the meeting that approved the annual report because the auditor had issued an unqualified independent auditor’s 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 outlines the services by service type and the fees paid to the auditor.

In the reporting period, the auditor did not notify the council of having become aware of any significant circumstances that might influence the work of the council or management of the company. Nor did the auditor notify the council of any risks to the auditor’s independence or professional integrity.

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

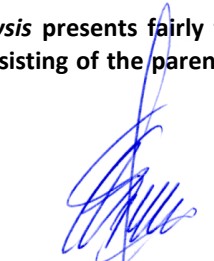


In the reporting period, the auditor’s services comprised the agreed audit services as well as tax advice, tax training, translation services and work involving agreed-upon procedures. Altogether, the fees paid to the auditor for services provided in 2012 totalled 41 thousand euros.

The auditor provided the audit committee formed by the council with a written overview of the company’s audit in 2012, the auditor’s findings and other significant matters that were discussed with the board.

In 2012, Nordecon AS complied with the subsections of section 6.2 of the CGR that relate to auditing.

Management’s confirmation and signatures

The board confirms that *Management’s discussion and analysis* presents fairly the operations, development, financial performance and financial position of the Group consisting of the parent and all consolidated entities and contains a description of the main risks and uncertainties.

Jaano Vink	Chairman of the Board		22 April 2013
Avo Ambur	Member of the Board		22 April 2013
Erkki Suurorg	Member of the Board		22 April 2013

Consolidated financial statements

Consolidated statement of financial position

EUR '000

As at 31 December

	Note	2012	2011
ASSETS			
Current assets			
Cash and cash equivalents	8	10,231	9,908
Trade and other receivables	9	42,896	34,645
Prepayments	10	1,840	2,610
Inventories	11	26,243	24,120
Non-current assets held for sale	12	0	242
Total current assets		81,210	71,525
Non-current assets			
Investments in equity-accounted investees	13	202	199
Other investments	15	26	26
Trade and other receivables	9	1,554	2,504
Investment property	16	4,930	4,930
Property, plant and equipment	17	8,851	7,437
Intangible assets	18	14,857	14,960
Total non-current assets		30,420	30,056
TOTAL ASSETS		111,630	101,581
LIABILITIES			
Current liabilities			
Loans and borrowings	19	27,185	19,130
Trade payables	21	31,968	27,403
Other payables	22	5,014	4,930
Deferred income	23	11,404	10,587
Provisions	24	521	485
Total current liabilities		76,092	62,535
Non-current liabilities			
Loans and borrowings	19	3,671	9,513
Trade payables	21	259	199
Other payables	22	96	96
Provisions	24	1,210	841
Total non-current liabilities		5,236	10,649
TOTAL LIABILITIES		81,328	73,184
EQUITY			
Share capital	25	19,657	19,657
Statutory capital reserve	25	2,554	2,554
Translation reserve	25	-404	-463
Retained earnings		6,039	4,563
Total equity attributable to equity holders of the parent		27,846	26,311
Non-controlling interests		2,456	2,086
TOTAL EQUITY		30,302	28,397
TOTAL LIABILITIES AND EQUITY		111,630	101,581

Consolidated statement of comprehensive income

EUR '000	Note	2012	2011
Revenue	27	159,422	147,802
Cost of sales	30	-151,205	-147,608
Gross profit		8,217	194
Distribution expenses		-389	-317
Administrative expenses	31	-5,385	-4,641
Other operating income	32	810	806
Other operating expenses	32	-566	-672
Operating profit/loss		2,687	-4,630
Finance income	33	622	938
Finance costs	33	-1,248	-1,086
Net finance costs		-626	-148
Share of loss/profit of equity-accounted investees	13	-79	100
Profit/loss before income tax		1,982	-4,678
Income tax expense	34	-56	-30
Profit/loss for the year		1,926	-4,708
Other comprehensive income/expense:			
Exchange differences on translating foreign operations		59	-329
Total other comprehensive income/expense for the year		59	-329
TOTAL COMPREHENSIVE INCOME/EXPENSE FOR THE YEAR		1,985	-5,037
Profit/loss attributable to:			
- Owners of the parent	26	1,477	-5,304
- Non-controlling interests		449	596
Profit/loss for the year		1,926	-4,708
Total comprehensive income/expense attributable to:			
- Owners of the parent		1,536	-5,924
- Non-controlling interests		449	887
Total comprehensive income/expense for the year		1,985	-5,037
Earnings per share attributable to owners of the parent:			
Basic earnings per share (EUR)	26	0.05	-0.17
Diluted earnings per share (EUR)	26	0.05	-0.17

Consolidated statement of cash flows

EUR '000	Note	2012	2011
Cash flows from operating activities			
Cash receipts from customers ¹		193,524	185,147
Cash paid to suppliers ²		-161,447	-160,805
VAT paid		-6,192	-2,384
Cash paid to and for employees		-16,888	-13,476
Income tax paid/recovered		-56	41
Net cash from operating activities		8,941	8,523
Cash flows from investing activities			
Acquisition of property, plant and equipment		-1,792	-58
Proceeds from sale of property, plant and equipment		379	340
Loans provided		-1,499	-213
Repayment of loans provided		399	1,745
Interest received		18	204
Dividends received		0	4
Net cash used in/from investing activities		-2,495	2,022
Cash flows from financing activities			
Proceeds from loans received		3,180	1,925
Repayment of loans received		-6,150	-4,907
Dividends paid		-80	0
Finance lease liabilities paid	20	-1,967	-1,921
Interest paid		-1,106	-1,089
Other payments made		0	-4
Net cash used in financing activities		-6,123	-5,996
Net cash inflow		323	4,549
Cash and cash equivalents at beginning of year		9,908	5,818
Effect of exchange rate fluctuations		0	-459
Increase in cash and cash equivalents		323	4,549
Cash and cash equivalents at end of year		10,231	9,908

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

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

Consolidated statement of changes in equity

EUR '000	Equity attributable to equity holders of the parent					Non-controlling interests	Total
	Share capital	Statutory capital reserve	Translation reserve	Retained earnings	Total		
Balance at							
31 December 2010	19,657	2,558	-232	10,257	32,240	1,199	33,439
Loss for the year	0	0	0	-5,304	-5,304	596	-4,708
Other comprehensive expense	0	0	-231	0	-231	-98	-329
Reduction of capital reserve		-4	0	0	-4	0	-4
Changes in non-controlling interests	0	0	0	-389	-389	389	0
Effect of rounding	-	-	-	-1	-1	-	-1
Balance at							
31 December 2011	19,657	2,554	-463	4,563	26,311	2,086	28,397
Profit for the year	0	0	0	1,477	1,477	449	1,926
Other comprehensive income	0	0	59	0	59	0	59
Dividend distribution	0	0	0	0	0	-80	-80
Effect of rounding	-	-	-	-1	-1	1	0
Balance at							
31 December 2012	19,657	2,554	-404	6,039	27,846	2,456	30,302

NOTE 1. Reporting entity

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

The consolidated financial statements of Nordecon AS (also referred to as 'the company' and 'the parent') as at and for the year ended 31 December 2012 comprise the company and its subsidiaries (together referred to as 'the Group') and the Group's interests in associates and jointly controlled entities. The Group's primary activities are building and infrastructure construction and, within strategic limits, real estate development. In addition to Estonia, the Group operates through its subsidiaries and associates in Lithuania, Ukraine and Finland. In the comparative period, the Group also operated in Belarus but in the reporting period Belarusian operations were discontinued (in November 2012).

NOTE 2. Statement of compliance and basis of preparation

Statement of compliance

The consolidated financial statements of Nordecon AS group and the parent company's primary financial statements for the year ended 31 December 2012 have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS EU).

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

Under the Estonian Commercial Code, ultimate approval of the annual report (including the consolidated financial statements) that has been prepared by the board and approved by the council rests with the annual general meeting of the shareholders. The annual general meeting may decide not to approve the annual report prepared and submitted by the board and may demand preparation of a new annual report.

The board authorised these consolidated financial statements for issue on 22 April 2013.

Basis of measurement

The consolidated financial statements have been prepared under the historical cost convention except that investment properties have been measured at fair value. The methods used to measure fair value are described in notes 5 and 35.

Functional and presentation currency

The functional currency of Group entities is the currency of the primary economic environment in which they operate: in Estonia and Finland - the euro (EUR), in Lithuania - the Lithuanian litas (LTL), in Ukraine - the Ukrainian hryvna (UAH). The consolidated financial statements are presented in euros. The information in the primary financial statements and the notes is presented in thousands of euros, rounded to the nearest thousand unless indicated otherwise. The euro became the Group's presentation currency as from 1 January 2011 when Estonia joined the euro-zone and adopted the euro as its official currency.

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 accounting 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 an ongoing basis and they are based on prior experience and the best available information about probable future events, actual results may differ from these estimates.

In 2012, the Group's conducted most of its business in Estonia. During the year, the Estonian GDP grew by 3.2% (2011: 7.6%). The real estate and construction markets continued to grow, being among the main contributors to the national GDP growth.

The total number of real estate transactions increased by 12% and the overall value of transactions grew by 13% to 1,768 million euros. The real estate market was active in the segment of completed residential premises but still relatively inactive in the segment of properties with no buildings. The construction production index rose by 19% and the Estonian construction companies' total production (output) was 2,079 million euros. In 2013, the growth rates of the real estate and construction markets should decelerate and the number of transactions with properties with no buildings should remain more or less stable. Accordingly, management has had to make estimates and exercise judgement in an environment where reliable information on the market prices of some assets is unobtainable and the outlooks of the construction and real estate markets remain 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 28) (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 ongoing control. The Group analyses any deviations from the budget and revises its estimate of the outcome whenever necessary.

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

In the reporting period, management had to estimate the outcome (profit/loss) of construction contracts in progress also because during contract activity it became probable that the total costs of some contracts could exceed or already exceeded the contract revenue. Management's ability to make accurate estimates is critical because an expected loss has to be recognised immediately. Estimates of total contract costs depend primarily on management's estimates of changes in input prices compared with the originally budgeted ones.

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

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

The Group is engaged in real estate development in Estonia and apartments that are built for sale are classified as inventories until that sale occurs. The Group has estimated the values of unsold apartments classified as inventories by reference to the sales prices of similar apartments sold near the reporting date.

On estimating the values of properties (plots of land) held for development, the Group relied on valuation reports issued by certified real estate appraisers and the calculations of its internal real estate specialists. Most of the properties have an officially adopted detailed design plan or the proceedings for the adoption of a detailed design plan are in progress. The properties are located in different regions across Estonia (Tallinn, Tartu, Pärnu and Narva). Although in 2012 the total number and overall value of transactions performed in the real estate market increased, the reports issued by certified real estate appraisers state that the sales prices of properties without buildings, which are in the initial stage of development, still cannot be measured reliably using the sales comparison method. Most of the Group's properties fall into that category.

In addition to the sales comparison method applied by real estate appraisers, the Group analysed the values of properties held for development 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 the estimated revenue of the project planned on the property after deduction of the estimated construction and other development costs and the developer's reasonable profit margin. The valuations were performed by the Group's real estate specialists with the assistance of external experts. The valuations were performed 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 valuation results, there was no need to write down properties held for development. The 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 16)

Both on initial recognition and subsequent reclassification, properties are classified to inventories, investment properties and items of property, plant and equipment on the basis of 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 four methods: the discounted cash flow method, the sales comparison method, the existence of a contract under the law of obligations at the reporting date or the residual value method (see note 5 for information on the application of the methods). The first three are based on appraisals made by third parties or contain a significant amount of factual information. Therefore they are preferred over the residual value method. The residual value method is used when other methods cannot be applied. The residual value method assumes somewhat more extensive estimation.

To determine the fair values of its investment properties the Group requested valuation reports from independent certified real estate appraisers. Owing to the situation in the real estate market in the regions where the Group's investment properties are located (Tartu and Pärnu), appraisers stated in their reports that the market value of the properties could not be determined reliably. Although the sales comparison method used by the appraisers was the most appropriate choice, the number of transactions with properties with no buildings in the regions involved was small. Thus, it was not possible to obtain sufficient reliable information as required by the valuation standards and to value the properties reliably using the sales comparison method. As a result, at the reporting date the Group could not restate the fair values of its investment properties based on the sales comparison method.

The discounted cash flow method could not be applied owing to the early stage of development of the properties. Since the properties are without buildings, they do not generate any rental income.

Due to the above reasons, the Group measured the values of its investment properties using the residual value method. The valuations were performed 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 valuation results, there was no need to write down any of the investment properties. The sensitivity analysis of the valuations is presented in the notes to the consolidated financial statements.

Provisions and contingent liabilities (notes 24 and 36) (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 expenditures for which it was originally recognised.

The Group establishes provisions for warranty expenses. The provisions are established after the completion of construction activity and the delivery of the work to the customer. As a rule, a warranty is given for two years but in recent years customers have started demanding longer warranty periods (three to five years). The amount of post-construction warranty liabilities is determined based on historical data on actual warranty expenses, which generally extend to around 0.2-0.6% of total contract costs. Depending on the complexity of the project, the Group may recognise a warranty liability that exceeds historical data.

Determination of the useful lives of property, plant and equipment (note 17) (J)

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

Measurement of goodwill (note 18) (E)

The Group assesses at least annually whether the carrying amount of goodwill acquired on the acquisition of subsidiaries may have declined below its recoverable amount. This is done by comparing the carrying amount of the cash-generating unit (CGU) to which goodwill has been allocated with the fair value (less costs to sell) or value in use of the CGU. 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 determine the present value of that future cash flow. For the purposes of the Group's financial statements, a CGU is the subsidiary, associate or joint venture 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 flows 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 stage of stable development so that the value for the terminal year 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).

Projected cash flows, which include both working capital investments and capital expenditures, 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 company. 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 that were used for estimating the value in use of the Group's CGUs ranged from 8 to 10%.

NOTE 3. Significant accounting policies

Basis of consolidation

Business combinations of independent entities and acquisition of goodwill

Business combinations between independent parties are accounted for by applying the acquisition method whereby the identifiable assets acquired and the liabilities and contingent liabilities assumed (net assets acquired) are recognised and measured at their fair values at the acquisition date, i.e. at the date on which control of the acquiree is obtained. Any difference between the cost of the business combination and the fair value of the net assets acquired is recognised as goodwill. Transaction-related costs, i.e. the costs incurred to effect a business combination (except for the costs to issue debt and equity securities in connection with the 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 from the 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 or a group of cash-generating units and it is not amortised. Instead, it 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.

Subsidiaries

Subsidiaries are entities controlled by the parent company. Control exists when the parent company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that are presently exercisable are taken into account. Control is presumed to exist when the parent owns, directly or indirectly through subsidiaries, more than half of the voting power of an entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Associates and joint ventures

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

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

Investments in associates and joint ventures (equity-accounted investees) are accounted for using the equity method. The investment is initially recognised at cost, which includes acquisition-related transaction charges. The carrying amount of an investment includes any goodwill identified on acquisition, net of any accumulated 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 losses 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 an obligation or has made payments on behalf of the investee. In justified cases, losses may be covered by writing down receivables from an equity-accounted investee (e.g. long-term loans).

Jointly controlled operations

Jointly controlled operations are joint ventures 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 jointly controlled operations, the Group recognises in its financial statements the assets that it controls and the liabilities that it incurs, and the expenses that it incurs and its share of the income that it earns from the sale of goods or services by the jointly controlled operation.

Transactions eliminated on consolidation

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

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

Translation of the financial statements of foreign subsidiaries

The assets and liabilities of foreign subsidiaries (including goodwill and 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	Lithuanian litas (LTL)	Ukrainian hryvna (UAH)*	Belarusian ruble (BYR)*
1 euro (EUR)	31 December 2011	3.4528	10.2981	10,800.00
1 euro (EUR)	31 December 2012	3.4528	10.5372	11,340.00

* The European Central Bank does not publish the exchange rates for UAH and BYR. Therefore, the exchange rates of UAH and BYR are based on the information published by the central banks of the countries involved.

Hyperinflationary functional currency

The income and expenses of foreign subsidiaries whose functional currency is the currency of a hyperinflationary economy are translated to euros using the exchange rate ruling at the reporting date. Before translation, the financial statements of such foreign subsidiaries are adjusted for changes in the purchasing power of the local currency. The adjustments are made by applying appropriate price indices as at the reporting date.

According to IMF, in 2011 the three-year cumulative inflation rate for Belarus was 100.04% (2010: 37.14%). Belarus was classified as a hyperinflationary economy in the last quarter of 2011. According to the Central Bank of Belarus, in 2012 the inflation rate in Belarus was 21.8%. Thus, due to a high three-year cumulative inflation rate the Belarusian ruble continues to be classified as a hyperinflationary currency.

Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities using the exchange rates quoted by the central banks of their respective countries at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rates at that date.

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

Non-monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated using the exchange rate at the date of acquisition except for assets measured at fair value that are retranslated to the functional currency using the exchange rate at the date the fair value was determined.

Financial assets

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

Regular way purchases and sales of financial assets (except for loans provided and receivables) are recognised using trade date accounting. The trade date is the date on which an entity 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.

Financial assets at fair value through profit or loss

A financial asset is classified as a financial asset at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition.

A financial asset at fair value through profit or loss is measured at its fair value at each reporting date without any deduction for the transaction costs that may be incurred on its sale or other disposal. A gain or loss on a change in fair value is recognised in profit or loss. The fair value of a listed security is determined based on its quoted bid price at the close of business at the reporting date and the official exchange rate of the European Central Bank at that date. The fair value of an unlisted security is established using publicly available information and valuation techniques, which may include comparison with the current fair value of another instrument which is substantially the same and/or discounted cash flow analysis.

A gain or loss on the disposal of a financial asset at fair value through profit or loss as well as any interest and dividend income on the financial asset is recognised in profit or loss for the period. A financial asset at fair value through profit or loss is classified as a current asset when it has been acquired for trading or it is expected to be realised within twelve months.

Held-to-maturity investments

Investments that the Group has the positive intention and ability to hold to maturity are recognised initially at their fair value plus any directly attributable transaction charges. Subsequent to initial recognition, held-to-maturity investments are measured at their amortised cost using the effective interest rate method. The effective interest rate is the rate that discounts the estimated cash flows of an investment (including all significant transaction costs, premiums and discounts) to the carrying amount of the investment. The value of held-to-maturity investments is adjusted for any impairment losses incurred. A held-to-maturity investment is classified as a non-current asset except for the portion that is expected to be realised within twelve months.

Loans and receivables

Loans and receivables with fixed or determinable payments that have not been acquired for resale are recognised initially at their fair value plus any directly attributable transaction charges. Subsequent to initial recognition, loans and receivables are measured at their amortised cost using the effective interest rate method.

Interest income on loans and receivables is recognised in profit or loss for the period. Loans and receivables are classified as current assets 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 or expense and in the fair value reserve in equity. When the asset is derecognised or becomes impaired the cumulative gain or loss recognised in the fair value reserve is recognised in finance income or costs. An available-for-sale financial asset is classified as a non-current asset 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 value.

Financial liabilities

All financial liabilities (trade and other payables, loans received, accrued expenses, debt securities issued and other short- and long-term borrowings) are recognised initially at their fair value. The fair value of a financial liability includes any transaction costs that are directly attributable to the acquisition or issue of the financial liability. 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 contract or 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) 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) or whether there is no such right (factoring without recourse).

In the case of factoring without recourse, the proceeds are recognised as a reduction of trade receivables. The difference between the proceeds and the carrying amount of the receivable is recognised as an expense. 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 are recognised in finance costs.

Inventories

Materials and goods purchased for resale (including properties acquired for development) are initially recognised at cost. The cost of materials and goods purchased for resale comprises all 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 (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 production costs 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 apartments.

Finished goods include apartments which have been completed as a result of real estate development and are available for sale; the apartments 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 acquired for development whose cost is assigned using specific identification of their individual costs.

In the statement of financial position, 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 the retirement or disposal of an investment property are recognised in profit or loss in the period of its retirement or disposal.

When there is a change in use, the 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 items 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 are 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 may be impaired when there is any indication that the recoverable amount of the item has 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 or other operating expenses respectively in the period in which the item is derecognised.

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

Borrowing costs

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

Intangible assets

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

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

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

Intangible assets with indefinite useful lives are not amortised. The useful life of an intangible asset that is not amortised is reviewed at each financial year-end to determine whether events and circumstances continue to support an indefinite useful life assessment for that asset. If the indefinite useful life has become finite, amortisation of the asset will commence and the change in the estimate 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 their carrying amount 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 accumulated impairment losses. The goodwill allocated to equity-accounted investees is included in the cost of the investees.

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

Research and development expenditures

Research expenditures include expenditures incurred in original and planned investigation undertaken with the prospect of gaining new scientific or technical knowledge and understanding. 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 to a plan or design or test for the production of new products, processes, systems or services. 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 expensed 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

Impairment of financial assets

A financial asset that is not a financial asset at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that 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.

Assets measured at amortised cost

An impairment loss in respect of 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. Impairment losses on loans and receivables are recognised in profit or loss in the period in which they are incurred. Recognition of interest income on the asset continues. When a financial asset for which an impairment loss has been recognised is recovered or another event occurs that reverses the impairment loss that has been recognised, the reversal is recognised in profit or loss by reducing the line item where the impairment loss was originally recognised.

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

Available-for-sale financial assets

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

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

Impairment of non-financial assets

The carrying amounts of the Group's non-financial assets, other than investment property, inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. An impairment loss is recognised if the carrying amount of an asset exceeds its recoverable amount. The recoverable amount of an asset or its cash-generating unit (CGU) is the higher of its fair value less costs to sell and the present value of its expected future cash flows (value in use). Value in use is calculated by estimating the future cash flows expected to be derived from the asset and by applying to those cash flows an appropriate pre-tax discount rate that reflects 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 from continuing use 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 the carrying amount of 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 Group's CGUs or groups of CGUs that are expected to benefit from the synergies of the 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 line 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 liability. The increase in the discounted amount arising from the passage of time and changes in the discount rate (unwinding of a discount) is recognised in profit or loss. Provisions are carried at their discounted present value if the effect of discounting is material.

A warranty provision is established when the service has been delivered and the obligation has been created 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 the obligation. Provisions for warranties are reviewed at least annually.

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

Promises, guarantees and other commitments that may transform into an obligation subject to the occurrence or non-occurrence of one or more uncertain future events 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 incurred as a result of past events whose realisation probability, according to management's estimates, is remote and/or which cannot be measured reliably.

Short-term employee benefits

Short-term employee benefits (wages and salaries payable and vacation pay liabilities) are measured on an undiscounted basis and are expensed as the related service is provided. Salary, wage and vacation pay liabilities are recognised on the basis of contracts signed with employees in accordance with the provisions of labour legislation 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.

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

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.

The Group recognises finance leases concluded for the acquisition of assets at the commencement of the lease as assets and liabilities at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. Assets acquired with 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 the lease term and its useful life. Minimum lease payments are apportioned between the finance charge and the 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.

The Group recognises assets leased out under finance leases in its statement of financial position and presents them as receivables at an amount equal to the net investment in the lease. Lease payments are treated as repayment of principal and finance income. Finance income is allocated over the lease term based on a pattern reflecting a constant periodic rate of return on the net investment in the lease.

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

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 until the prescribed 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 established at the subsidiaries at the time when the parent had control over them.

Earnings per share

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

Income tax

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

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

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

Under the Estonian Income Tax Act, corporate income tax is not levied on profits earned but on profit distributions (dividends). Until 31 December 2012, the amount of tax payable on a dividend distribution was calculated as 21/79 of the amount of the net distribution. The tax rate will remain the same in 2013. 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 which would arise if all of the unrestricted equity were distributed as dividends is disclosed in the notes to the consolidated financial statements.

Foreign subsidiaries, associates and joint ventures

In Ukraine, Belarus, Finland and Lithuania corporate profits are subject to income tax. The income tax rates are as follows: Ukraine 21% (2011: 23%), Belarus 18% (2011: 24%) (the Group discontinued its operations in Belarus in 2012), Finland 24.5% (2011: 26%) and Lithuania 15% (2011: 15%). Taxable income 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 tax bases and carrying amounts 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 activities from which it may earn revenues and incur expenses (including revenues and expenses that relate to transactions with the Group's other operating segments) and for which discrete financial information is available. The profit or loss of a segment may include items allocated to segments on a reasonable basis. Financial items that cannot be allocated relate to the parent company's administrative activities or do not have a reasonable basis for allocation.

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

Revenue

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

Revenue from construction contracts

Contract revenue and contract costs associated with a construction contract are recognised as revenue and expenses respectively using the stage of completion method when the outcome of the contract can be estimated reliably. 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.

Revenue from rendering of services

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

Revenue from sale of goods purchased and finished goods

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

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

Finance income

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

Government grants

A government grant related to assets is recognised initially as deferred income at the fair value of consideration received when there is reasonable assurance that the grant will be received and the Group will comply with the conditions attaching to the grant. The amount received is recognised in profit or loss on a systematic basis over the useful life of the asset.

A grant related to income that compensates the Group for expenses incurred is recognised in profit or loss on a systematic basis in the same periods in which the expenses the grant is intended to compensate are recognised.

Construction contracts in progress

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

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 liability. If the revenue recognised using the stage of completion method exceeds progress billings, the difference is recognised in the statement of financial position as an asset.

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 expected loss is recognised immediately and in full in profit or loss.

Discontinued operations

A discontinued operation is a component of the Group that has been disposed of or is classified as held for sale and represents a separate major line of business (a segment or sub-segment) or a geographical area of operation. The assets and liabilities of a discontinued operation are presented in the statement of financial position or disclosed in the notes so that users of the financial statements can obtain an overview of the net assets of the discontinued operation. In the statement of comprehensive income, the comparative period is re-presented as if the operation had been discontinued from the beginning of the comparative period in order to ensure comparability of the information.

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

The parent company's unconsolidated primary financial statements are presented as supplementary information in accordance with the Estonian Accounting Act and they do not constitute the parent company's separate financial statements as defined in IAS 27.

In the parent company's unconsolidated financial statements, investments in subsidiaries, associates and joint ventures are accounted for using the cost method. Under the cost method, 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 recognised.

When there is any indication that an investment may be impaired or at least at each financial year-end, the Group tests the investments for impairment by estimating their recoverable amounts (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. Changes in accounting policies and presentation of information

New and revised standards and interpretations effective for the reporting period

None of the new and revised International Financial Reporting Standards, amendments to standards, and interpretations as adopted by the European Union that became effective for annual periods beginning on 1 January 2012 had an effect on the preparation of the Group's financial statements. Amendments that became effective for the reporting period:

- Amendments to IFRS 7 *Disclosures – Transfers of Financial Assets* (effective for annual periods beginning on or after 1 July 2011).

The amendments require disclosure of information that enables users of financial statements to understand the relationship between transferred financial assets that are not derecognised in their entirety and the associated liabilities; and to evaluate the nature of, and risks associated with, the entity's continuing involvement in derecognised financial assets. The amendments define "continuing involvement" for the purposes of applying the disclosure requirements.

The Group is of the opinion that because of the nature of its operations and the types of financial assets that it holds, the amendments to IFRS 7 did not have a significant effect on its consolidated financial statements.

New and revised standards and interpretations published as at 31 December 2012

By the reporting date some new standards, amendments to standards and interpretations had been published and adopted by the EU (IFRS EU) which were not yet effective for the reporting period and have therefore not been applied in preparing the Group's consolidated financial statements. Standards, amendments and interpretations that may have an effect on the Group's financial statements:

- IFRS 13 *Fair Value Measurement* (effective prospectively for annual periods beginning on or after 1 January 2013)

IFRS 13 replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. It defines fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. IFRS 13 explains how to measure fair value when it is required or permitted by other IFRSs.

The standard does not introduce new requirements to measuring assets or liabilities at fair value, nor does it eliminate the practicability exceptions to fair value measurements that currently exist in certain standards.

The standard contains an extensive disclosure framework that provides additional disclosures to existing requirements to provide information that enables financial statement users to assess the methods and inputs used to develop fair value measurements and, for recurring fair value measurements that use significant unobservable inputs, the effect of the measurements on profit or loss or other comprehensive income or expense.

It is expected that the Standard, when initially applied, will have a significant impact on the disclosures in the notes to the financial statements in respect of the fair value and the determination of the fair value of certain financial and non-financial items (property, plant and equipment and intangible assets). However, the Group is not able to prepare an analysis of the impact this will have on the financial statements until the date of initial application.

- Amendments to IAS 1 *Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income* (effective for annual periods beginning on or after 1 July 2012; to be applied retrospectively)

The amendments

- require that an entity presents separately the items of other comprehensive income that may be reclassified to profit or loss in the future from those that would never be reclassified to profit or loss. If items of other comprehensive income are presented before related tax effects, then the aggregated tax amount should be allocated between these sections.
- change the title of the statement of comprehensive income to statement of profit or loss and other comprehensive income, however, other titles are also allowed to be used.

The impact of the initial application of the amendments will depend on the specific items of other comprehensive income or expense at the date of initial application. If the Group had adopted the amendments from 1 January 2012, then the following items of other comprehensive income would be presented as items that may be reclassified to profit or loss in the future: -463 thousand euros recognised in the translation reserve. The remaining amounts and items of other comprehensive income would never be reclassified to profit or loss.

According to management's assessment, the following standards, amendments and interpretations will probably have no effect on the Group's financial statements:

- Amendments to IFRS 7 *Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities* (effective for annual periods beginning on or after 1 January 2013; to be applied retrospectively);
- IFRS 10 *Consolidated Financial Statements* and IAS 27 (2011) *Separate Financial Statements* (effective for annual periods beginning on or after 1 January 2014; to be applied retrospectively when there is a change in control conclusion);
- IFRS 11 *Joint Arrangements* (effective for annual periods beginning on or after 1 January 2014; to be applied retrospectively subject to transitional provisions);
- IFRS 12 *Disclosure of Interests in Other Entities* (effective for annual periods beginning on or after 1 January 2014; to be applied retrospectively);
- Amendments to IAS 12 *Deferred Tax: Recovery of Underlying Assets* (effective for annual periods beginning on or after 1 January 2013; to be applied retrospectively);
- IAS 19 (2011) *Employee Benefits* (effective for annual periods beginning on or after 1 January 2013; to be applied retrospectively);
- IAS 28 (2011) *Investments in Associates and Joint Ventures* (the amendments are effective for annual periods beginning on or after 1 January 2014; to be applied retrospectively);
- Amendments to IAS 32 *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities* (effective for annual periods beginning on or after 1 January 2014; to be applied retrospectively);
- IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine* (effective for annual periods beginning on or after 1 January 2013; it applies prospectively to production stripping costs incurred on or after the beginning of the earliest period presented).

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 assumes ongoing identification and accurate assessment of the potential impacts of the risks faced by the Group as well as rigorous adherence to the risk management policies in place. The main objective of risk management is to prevent any adverse impacts that could jeopardise the Group's compliance with the terms and conditions set by creditors, the sufficiency of the Group's equity and the Group's ability to continue operating 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 risk 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 will cause a financial loss for the Group by failing to discharge an obligation under a financial instrument. 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 general features such as the customer's legal status (private or state-owned entity), geographical location, industry, and the economic situation in the country involved as these factors may also influence the Group's exposure to credit risk. Based on the Group's experience, private sector customers have the highest credit risk while the credit risk of government institutions and local governments is the lowest. The latter assessment is confirmed by the fact that there has been practically no need to write down receivables from public sector customers. In 2012, public sector projects accounted for around 59% of the Group's revenue (2011: around 55%). The Group has a relatively large customer base but from the point of view of credit risk the relative importance of major customers may be significant. In 2012, the largest customer (the Estonian Road Administration) accounted for around 26% of the Group's revenue (2011: around 17%).

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. In the case of high-risk counterparties, services are rendered and goods are sold on a prepayment basis only.

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

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

Further information on the Group's credit risk exposure is provided in note 35.

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 subject to seasonal fluctuations, particularly in the infrastructure segment. In the first quarter of the year, business volumes and profit margins are the lowest and the Group needs to use the cash accumulated in previous periods to cover its operating and administrative expenses. In the second and third quarter, growth in operating activities triggers the need for additional working capital.

- Due to the conditions prevailing in the market, the Group generally collects payments from customers within 45 to 60 days and makes payments to suppliers and subcontractors within 21 to 45 days. The mismatch between settlements received and made has to be covered with internal funds or using the credit lines provided by financial institutions.
- The Group has to invest in property, plant and equipment and intangible assets.
- The Group has to observe the settlement schedules of its loan and lease liabilities.

Short-term liquidity management is effected through Group entities' approved annual budgets and investment plans. The main tools for short-term liquidity management are the 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 facilities provided by banks.

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

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

The Group's liquidity position in 2013

At the end of the year, the Group's current assets and current liabilities amounted to 81,210 thousand euros and 76,092 thousand euros respectively (current ratio was 1.08). Current assets include short-term loans of 8,332 thousand euros related to Ukrainian business operations that are not part of the working capital that could be used for financing the Group's daily business operations. The loans are classified as current items because in 2012 the Group made serious efforts to shorten their settlement terms. At the date of release of this report, the properties acquired with the loans have been privatised and encumbered with mortgages created for the benefit of the owners. In the Ukrainian economic environment, this has improved the prospects of realising the development project considerably. Despite the measures adopted by the Group's management, it is uncertain whether the loans will be repaid in the next twelve months because finding potential investors in the complicated economic environment is not easy and due to the size of the project the sales period may exceed one year. It is also possible that the project will be realised (and the loans will be repaid) in stages.

Current liabilities include loan liabilities of 27,185 thousand euros. During the period 2009-2011 the Group operated with a loss, which reduced free cash flows that could be used for settling its financial liabilities. Since spring 2011, the Group has been working with the international consulting firm Roland Berger Strategy Consultants and its main financing partners with a view to optimising the structure of its financial liabilities. Liabilities have been restructured to ensure sustainability, i.e. to allow the Group to carry on its core business. For this, the financing partners have refinanced the Group's short-term overdrafts, have granted repayment holidays for long-term loans for the period 2011-2013 and have provided the Group with additional short-term overdraft facilities for counteracting seasonal fluctuations in its cash flows (2012: 6,521 thousand euros). The activities will continue in 2013. By the date of release of this report, part of relevant negotiations has already been successfully completed. According to current practice, the Group's financing partners do not refinance liabilities for a period exceeding twelve months. Therefore, a substantial portion of the Group's financial liabilities as at the reporting date is made up of current items.

Based on its financing plan for 2013, the Group believes that in 2013 loan liabilities of 13,415 thousand euros, which at the reporting date were classified as current items, can be refinanced for a period exceeding twelve months. This will involve refinancing short-term overdrafts of 4,269 thousand euros and refinancing/negotiating repayment holidays for long-term loans of 9,146 thousand euros. By the date of release of this report, banks have approved refinancing agreements in the above amount (includes contracts already signed) (see note 19).

After adjustment for the above amounts, current assets and current liabilities would amount to 72,878 thousand euros and 62,677 thousand euros respectively (current ratio would be 1.16). In addition, according to the financing plan, in 2013 the financing partners will support the Group's liquidity position with additional overdraft facilities of approximately 7,500 thousand euros.

In light of the above, the Group's management is confident that in 2013 the Group's liquidity position will be adequate to allow the Group to continue sustainable and profitable business operations and to settle its liabilities to counterparties on a timely basis.

Further information on the Group's liquidity is provided in note 35.

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.

As from 1 January 2011, the official currency of Estonia is the euro. The switchover was conducted at the historical exchange rate of 1 euro = 15.6466 kroons. Thus, from 2011 the contracts which the Group's Estonian entities signed in earlier periods in euros do not involve a currency risk.

The Ukrainian national currency, the hryvna (UAH), floats against other currencies. The Ukrainian Group entities' currency risk exposure arises from financial instruments that are denominated in currencies other than the hryvna, for example USD- or euro-based loan and lease liabilities. In recent years, the proportion of such liabilities has decreased significantly and currency risk is no longer significant. In the reporting period, the exchange rate of the hryvna against the US dollar and the euro remained stable, strengthening slightly. In 2012, the Group's foreign exchange losses from its Ukrainian operations totalled 69 thousand euros (2011: exchange gains totalled 146 thousand euros). At the reporting date, the Group's non-Ukrainian entities had no financial instruments denominated in UAH. In 2013, the Group's Ukrainian operations are expected to remain limited, which will reduce the Group's currency risk exposure.

At the reporting date, the Group had no currency risk exposures in Lithuania because the Group's Lithuanian operations have been essentially suspended. The exchange rate of the Lithuanian litas against the euro is fixed. The Lithuanian subsidiary does not have financial instruments denominated in currencies other than the euro. At the reporting date, the Group's non-Lithuanian entities had no financial instruments denominated in the Lithuanian litas (LTL)

In 2012, the Group discontinued its business operations in the hyperinflationary Belarusian economic environment and the Belarusian subsidiary Eurocon Stroi IOOO was liquidated (see note 7). After the liquidation of the Belarusian subsidiary, Group entities have no financial instruments denominated in the Belarusian ruble (BYR).

Owing to the relative insignificance of exposures to other currencies, the Group has not implemented hedging instruments to counteract the currency risk.

Interest rate risk

The Group's interest rate risk is influenced by two factors: a rise in the base rate of floating interest rates (EURIBOR, EONIA or the creditor's own base rate) and operating cash flow that is insufficient for covering interest expense. The Group mitigates the first factor by observing the policy that when market interest rates are low, contracts are concluded, where possible, at a fixed interest rate. As regards loan products offered by banks, observance of the policy has proved difficult and most new contracts have a floating interest rate. Realisation of the cash flow risk of interest payments depends on the success of operating activities. The Group does not use derivative financial instruments to hedge its interest rate risk.

Further information on the Group's market risk exposures is provided in note 35.

Country risk

At the end of 2012, the Group conducted active business operations in two foreign markets - Ukraine and Finland. Revenues generated in those countries accounted for 0.2% and 2% of the Group's total revenue respectively (2011: revenue generated in Ukraine, Finland and Belarus accounted for 3% of total revenue in aggregate) while assets located in Ukraine and Finland accounted for 0.3% and 0.6% of the Group's total year-end assets (2011: assets in Ukraine, Finland and Belarus accounted for 1% of total assets in aggregate). The Ukrainian economy (including the construction and real estate market) has not recovered from the downturn and prospects of a rise in investment activity are relatively remote. For the Group, the main country risk factor associated with Ukraine is an unstable and unpredictable economic and political environment.

Accordingly, the Group's management is of the opinion that the Group's financial instruments that are related to Ukraine carry a high risk and the probability that their value may decrease in the foreseeable future is above average (see note 35).

Determination of fair value

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

The 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 have been 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 published by the Bank of Estonia.

A comparison of the fair values and carrying amounts of the Group's financial instruments is presented in note 35.

Investment property

Properties that have been classified as investment properties are measured at their fair values. Among other means, fair value is determined by reference to the expert opinions of certified independent 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 lessee), 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. The discounted cash flow method is used to determine the value of properties that generate stable rental income.
- 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 under similar circumstances. This method is used to determine the value of properties that do not generate rental income but are held for development or capital appreciation. As the transactions selected for comparison are practically never identical with the property being valued, their prices are adjusted to reflect differences in time, location, size and detailed design plan. Application of this method assumes that a sufficient number of arm's length transactions with similar properties are performed in the area in which the property is located around the time the valuation is performed (the comparable transactions have to have occurred no more than a year before the valuation).
- Price in a contract under the law of obligations – The fair value of properties which at the reporting date have been sold by a contract under the law of obligations but whose real right contract³ 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 used also 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.

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 included in 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.

- Residual value method – Under this method the fair value of a property is the sum that remains from estimated project revenue after the deduction of estimated construction and other development costs and the developer's reasonable profit margin. The residual value method is used when the above methods cannot be applied. The residual value method assumes somewhat more extensive estimation. The valuation is performed 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). When fair value is determined using the residual value method, the expected rate of return has to be comparable to those prevailing in the market.

The Group applies the sales comparison method to investment properties that do not generate rental income, that are not being developed (there is no detailed design plan and/or no business plan) or actively marketed, and in respect of which the Group has not received any purchase bids from third parties. The Group has four such properties, three of which are located in western Estonia near Pärnu (all are without detailed design plans) and one is located in Tartu. The fair values of those properties were appraised by independent real estate appraisers who conducted their valuations by analysing the regional real estate markets in respect of comparable transactions. The Estonian real estate market (particularly the areas outside the capital Tallinn) has not recovered from the downturn of previous years and therefore the number of comparable transactions (transactions with properties without buildings) required for performing the valuation is extremely small. Accordingly, the independent appraiser decided not to express an opinion on the value of the Group's investment properties based on the sales comparison method on the grounds that the information available in the market was so unreliable that it did not allow determining fair value as defined in the valuation and accounting standards.

The Group measured the fair values of its investment properties using the residual value method. The valuations were performed by the Group's real estate specialists with the assistance of external experts. Based on the valuation results, no change in the fair value of investment properties was required. The effect of changes in estimates on the value of the Group's investment properties is presented in note 16.

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 to sustain development of the business.

In 2012, the Group's gearing ratio remained stable compared with 2011. Through the period the Group enjoyed repayment holidays agreed with the banks in 2011 for the principal payments its long-term loans. Depending on need and the outcome of negotiations, the repayment holidays may be extended through 2013. Interest-bearing liabilities have increased on account of short-term credit products which are seasonal by nature (e.g. factoring liabilities). Accordingly, in 2013 the gearing ratio may move in either direction but on an annual basis it should remain at the level of 2012.

Gearing ratio is at a level that does not influence the Group's capital management principles and does not require the Group to raise additional share capital. The ceiling of the gearing ratio is linked to the size of equity. Considering the statutory minimum equity requirements, at the reporting date the gearing ratio could have extended to 45% (2011: 45%) assuming all other variables remained constant.

EUR '000	2012	2011
Total interest-bearing liabilities (see note 19)	30,856	28,643
Cash and cash equivalents (see note 8)	-10,231	-9,908
Net interest-bearing liabilities	20,625	18,735
Total equity	30,302	28,397
Invested capital (interest-bearing liabilities + equity)	61,158	57,040
Gearing ratio*	34%	33%

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

Minimum capital requirements

At the reporting date, loan agreements signed with the banks required the Group to maintain the equity ratio (equity to equity and liabilities) at 25% or above (2012 actual: 27.1%; 2011: 28.0%).

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

In the reporting period, the Group complied with all contractual and regulatory capital and ratio requirements.

Dividend policy

Dividend policy plays a significant role in the Group's capital management. To date, the size of a dividend distribution has been determined primarily by reference to:

- the dividend expectations of the ultimate controlling shareholder AS Nordic Contractors;
- the general rate of return on the (Estonian) securities market; and
- the optimal ratio and volume of debt and equity capital that is required for the Group's profitable growth and sustainable development.

Dividends distributed by Nordecon AS in previous years:

Year of payout	Total dividends paid EUR '000	Number of shares, in thousands	Dividend per share EUR	Dividend payout ratio*
2006	1,917	3,482	0.55	34.6%
2007	2,949	15,378	0.19	26.1%
2008	5,897	30,757	0.19	34.5%
2009	1,966	30,757	0.06	21.1%
2010	0	30,757	0	0%
2011	0	30,757	0	0%
2012	0	30,757	0	0%

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

NOTE 6. Group entities

The consolidated financial statements of Nordecon group as at and for the year ended 31 December 2012 include 25 subsidiaries (2011: 23 subsidiaries including the Belarusian subsidiary that was liquidated in 2012), 19 of them operating in Estonia (2011: 16), 4 in Ukraine (2011: 4), 1 in Lithuania (2011: 1) and 1 in Finland (2011: 1).

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

Subsidiary	Core business	Country of incorporation	Ownership interest 2012 (%)	Ownership interest 2011 (%)
Nordecon Betoon OÜ	Concrete works	Estonia	52	52
Eston Ehitus AS	Building construction	Estonia	98	98
Järva Teed AS	Road construction and maintenance	Estonia	100	100
Hiiu Teed OÜ	Road construction and maintenance	Estonia	100	100
Kaurits OÜ	Leasing out heavy equipment	Estonia	66	66
EE Ressursid OÜ	Geological surveying	Estonia	100	100
Kalda Kodu OÜ	Real estate development	Estonia	99	99
Magasini 29 OÜ	Real estate development	Estonia	98	98
Eurocon Vara OÜ	Holding company (UKR)	Estonia	100	100
Eurocon Ukraine TOV	Building construction	Ukraine	100	100
Eurocon West TOV ⁴	Building construction	Ukraine	100	100
Instar Property TOV ⁴	Real estate development	Ukraine	98	98
Eurocon OÜ	Holding company (UKR)	Estonia	64	64
MP Ukraine TOV ⁴	Concrete works	Ukraine	54	54
Estcon Oy	Concrete works	Finland	52	52
Nordecon Statyba UAB ⁴	Building construction	Lithuania	70	70
Instar Property OÜ ⁵	Real estate development	Estonia	0	64
Eurocon Stroi IOOO ⁶	Building construction	Belarus	0	100

⁴ Not currently active; ⁵ Instar Property OÜ merged with Eurocon OÜ; ⁶ Eurocon Stroi IOOO was liquidated

In addition to the above subsidiaries, the Group includes OÜ Eesti Ehitus, OÜ Aspi, OÜ Linnaehitus, OÜ Mapri Projekt (all established for the protection of the former business names of Group entities) and Infra Ehitus OÜ. In 2012, four new subsidiaries were established: OÜ Paekalda 2, OÜ Paekalda 3, OÜ Paekalda 7 and OÜ Paekalda 9 (see note 7). All of them are domiciled in Estonia and are currently dormant.

At 31 December 2012, the Group also had interests in 5 associates (2011: 5) and 1 joint venture (2011: 1). Further information on equity-accounted investees is presented in note 13.

Information in changes in the composition of Group entities is provided in note 7.

NOTE 7. Changes in Group structure

Establishment of subsidiaries

In October, the shareholders of the Group's joint venture Unigate OÜ (Nordecon AS's interest: 50%) signed a notarised plan of division by which the properties subject to nature conservation restrictions were separated from the company and divided equally between the shareholders. In line with the plan, the properties were transferred to companies established by the shareholders. Nordecon AS established four subsidiaries for accepting the properties - OÜ Paekalda 2, OÜ Paekalda 3, OÜ Paekalda 7 and OÜ Paekalda 9. The share capital of each established entity is 2,556 euros, which was paid in using non-monetary contributions (the properties transferred). The total value of the properties transferred to Nordecon AS was 140 thousand euros.

As a result of the transaction, the Group recognised an increase in inventories of 140 thousand euros and an increase in other operating income of 140 thousand euros.

Merger and liquidation of subsidiaries

Instar Property OÜ

In October, Eurocon OÜ (the acquirer; Nordecon AS's interest: 64%) and its solely held subsidiary Instar Property OÜ (the acquiree) signed a merger agreement. The merger proceedings did not give rise to any changes in the share capital of the acquirer, Eurocon OÜ. Instar Property OÜ did not conduct any business operations in 2012. After the merger, the acquired entity was considered dissolved.

Eurocon Stroi IOOO

In November, the Belarusian subsidiary Eurocon Stroi IOOO (Nordecon AS's interest: 100%) was liquidated in connection with the Group's exit from the Belarusian market. In 2012, the entity's business volumes were insignificant. Revenue for 2012 amounted to 8 thousand euros (2011: 1,310 thousand euros). The liquidation gave rise to a gain of 181 thousand euros, which was recognised as a reduction of the Group's finance costs (see note 33). After the liquidation of the Belarusian subsidiary, the Group's statement of financial position does not include any receivables or liabilities related to Belarusian operations except for an estimated warranty provision of 9 thousand euros made for the construction contract completed in Belarus (31 December 2011: assets of 418 thousand euros).

NOTE 8. Cash and cash equivalents

EUR '000	31 December 2012	31 December 2011
Current accounts with banks	10,231	9,908
Total cash and cash equivalents	10,231	9,908

The amounts in current accounts are placed in overnight deposits. During the reporting period, the interest rates of overnight deposits ranged from 0.1% to 0.17%. The majority of the current accounts are in the following banking groups: Swedbank, Nordea Bank, SEB, Danske Bank.

The Group's exposure to interest rate risk and a sensitivity analysis of the Group's financial assets and liabilities are presented in note 35.

NOTE 9. Trade and other receivables

EUR '000		31 December 2012	31 December 2011
Current portion	Note		
Trade receivables	35	20,408	14,783
Retentions receivable	28, 35	4,479	2,544
Receivables from related parties	38, 35	1,016	982
Loans to related parties	38, 35	10,474	8,150
Miscellaneous receivables		1,014	1,057
Total receivables and loans provided		37,391	27,516
Due from customers for contract work	28, 35	5,505	7,129
Total trade and other receivables		42,896	34,645

EUR '000		31 December 2012	31 December 2011
Non-current portion	Note		
Loans to related parties	35, 38	1,168	2,117
Miscellaneous long-term receivables		386	387
Total trade and other receivables		1,554	2,504

Trade receivables are presented net of impairment allowances, which at the reporting date totalled 77 thousand euros (31 December 2011: 2,790 thousand euros). Changes in impairment allowances are presented in note 35.

Retentions receivable comprise the amounts of progress billings withheld by customers in line with the terms of construction contracts. The amounts are generally recovered within twelve months after the reporting date.

NOTE 10. Prepayments

EUR '000	31 December 2012	31 December 2011
Prepayments to suppliers	1,422	2,173
Prepaid taxes	172	182
Prepaid expenses	246	255
Total prepayments	1,840	2,610

Prepayments to suppliers comprise prepayments for services of 1,357 thousand euros (31 December 2011: 2,085 thousand euros) and prepayments for building materials of 65 thousand euros (31 December 2011: 88 thousand euros).

NOTE 11. Inventories

EUR '000	31 December 2012	31 December 2011
Raw materials and consumables	3,524	3,120
Work in progress	7,374	5,330
Finished goods	1,604	2,407
Goods for resale and properties purchased for development	13,741	13,263
Total inventories	26,243	24,120

Raw materials and consumables comprise materials acquired for construction projects and road maintenance. In 2012, no materials were written down (2011: no write-down).

Work in progress comprises the costs related to construction contracts in progress at the reporting date (the costs related to work not yet delivered to the customer). In addition, work in progress includes capitalised expenditures incurred in making preparations for development operations. Work in progress comprises of the following items:

EUR '000	31 December 2012	31 December 2011
Capitalised pre-development expenditures	2,103	1,874
Other construction projects	5,271	3,456
Total	7,374	5,330
Of which borrowing costs	697	451

Finished goods comprise the construction costs of apartments completed but not yet sold. The decrease in finished goods reflects the sale of apartments. A comparison with market prices indicated that in 2012 the net realisable values of the apartments were not lower than their carrying amounts and there was no need for a write-down (2011: no write-down).

At the reporting date, the total carrying value of properties purchased for development was 13,741 thousand euros (2011: 13,263 thousand euros). The Group has not started active development operations on these properties. All post-acquisition expenditures incurred in making preparations for development operations that qualify for capitalisation have been recognised in work in progress. At 31 December 2012, the properties were carried at cost. Information on inventories pledged as collateral is provided in note 37.

Potential impact of changes in estimates

The Group measured the net realisable values of properties (plots of land) acquired for development using the residual value method. One of the significant valuation inputs was the estimated amount of future project cash flows (estimated sales price of apartments per square metre). According to the sensitivity analysis, a 10% decrease in actual sales proceeds (compared with the estimate), would require the Group to write the properties down by around 2,257 thousand euros.

The net realisable value of apartments completed but not sold was measured using comparison with the actual sales prices of apartments sold near the reporting date. One of the significant valuation inputs was price per square metre. According to the sensitivity analysis, a 10% decrease in actual sales proceeds (compared with the estimate), would require the Group to write completed but unsold apartments down by around 160 thousand euros.

NOTE 12. Non-current assets held for sale

EUR '000	31 December 2012	31 December 2011
Non-current assets held for sale	0	242
Total non-current assets held for sale	0	242

In 2011, non-current assets held for sale comprised heated construction site shelters, which the Group wished to sell because demand for construction services had decreased and the Group had more site shelters than it could use. In 2012, no interested buyers were found and the assets were reclassified to property, plant and equipment.

In 2011, non-current assets held for sale were written down by 84 thousand euros (see note 32) based on actual bids received.

NOTE 13. Investments in equity-accounted investees

General information on equity-accounted investees

Name and type of investee	Domicile	Group's interest		Business line	
		31 December 2012	31 December 2011		
V.I. Center TOV	Associate	Ukraine	44%	44%	Real estate development
Technopolis-2 TOV	Associate	Ukraine	50%	50%	Real estate development
Kastani Kinnisvara OÜ	Associate	Estonia	26%	26%	Real estate development
Sepavara OÜ	Associate	Estonia	49%	49%	Real estate development
Pigipada OÜ	Associate	Estonia	49%	49%	Bitumen refining
Unigate OÜ	Joint venture	Estonia	50%	50%	Real estate development

Carrying amounts of equity-accounted investees

EUR '000	31 December 2012	31 December 2011
Investments in equity-accounted investees (associates and joint ventures)	202	199
Total investments in equity-accounted investees	202	199

Financial information on equity-accounted investees

2012

Summary financial information on associates presented as separate companies

Associate	31 December 2012			2012		31 December 2012 Value of investment in the Group's accounts
	Assets	Liabilities	Equity	Revenue	Profit/loss	
V.I. Center TOV	14,045	18,336	-4,291	14	-586	0
Technopolis-2 TOV	522	2,115	-1,593	0	-204	0
Kastani Kinnisvara OÜ	541	895	-354	224	-174	0
Sepavara OÜ	4	410	-406	0	-406	0
Pigipada OÜ	819	407	412	3,925	203	202
Total	15,931	22,163	-6,232	4,163	-1,167	202

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

Liquidation of Sepavara OÜ will begin in 2013. The Group has written down the loans provided to the entity by 204 thousand euros (see notes 33 and 38) and the liquidation will not cause any significant costs for the Group.

The Group has not recognised a provision for restoring the negative equity of Kastani Kinnisvara OÜ. The associate's negative equity is expected to be restored by waiving the right to demand repayment of a loan in subsequent periods. For the same purpose, in 2012 loan receivables from the associate were written down by 50 thousand euros (2011: 46 thousand euros).

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

Joint venture	31 December 2012				2012		31 December 2012 Value of investment in the Group's accounts
	Current assets	Non-current assets	Current liabilities	Non-current liabilities	Revenue	Expenses	
Unigate OÜ	3,615	0	3,778	0	0	2	0

In 2012, Unigate OÜ was divided. The transaction involved separating from the company some of the properties belonging to it (see note 7). As a result of the transaction, the company's equity became negative. The Group has recognised a provision of 82 thousand euros for restoring the entity's equity. The costs of creating the provision were recognised within the Group's share of profit/loss of equity-accounted investees.

2011

Summary financial information on associates presented as separate companies

EUR '000	31 December 2011			2011		31 December 2011 Value of investment in the Group's accounts
	Assets	Liabilities	Equity	Revenue	Profit/loss	
Associate						
V.I. Center TOV	12,616	16,424	-3,808	20	299	0
Technopolis-2 TOV	467	1,956	-1,489	1	-194	0
Kastani Kinnisvara OÜ	830	1,003	-173	307	-172	0
Sepavara OÜ	471	471	0	0	-1	0
Pigipada OÜ	721	513	208	3,220	237	102
Total	15,105	20,367	-5,262	3,548	169	102

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

EUR '000	31 December 2011				2011		31 December 2011 Value of investment in the Group's accounts
	Current assets	Non-current assets	Current liabilities	Non-current liabilities	Revenue	Expenses	
Joint venture							
Unigate OÜ	3,637	0	3,517	0	0	2	97

The Group's share of profit or loss of equity-accounted investees

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

EUR '000	Recorded in 2012			Recorded in 2011		
	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	-258	0	-258	84	0	84
Technopolis-2 TOV	-102	0	-102	-62	0	-62
Kastani Kinnisvara OÜ	-45	0	-45	-45	0	-45
Sepavara OÜ	-199	0	-199	0	0	0
Pigipada OÜ	100	100	0	116	101	15
Unigate OÜ	-179	-179	0	-1	-1	0
Total	-683	-79	-604	92	100	-8

To cover the loss from Kastani Kinnisvara OÜ that is accounted for off the statement of financial position (45 thousand euros), loan receivables from the entity were written down by 50 thousand euros (other finance costs, see notes 33 and 38).

The loss of 179 thousand euros recorded for Unigate OÜ in 2012 consists of a write-down of the investment of 97 thousand euros and expenses on creating a provision for restoring negative equity of 82 thousand euros.

NOTE 14. Participation in jointly controlled operations

The Group participates in jointly controlled 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 the operation of the jointly controlled operations, therefore each party recognises in its financial statements the assets used for construction purposes, the liabilities and expenses incurred and the income earned in accordance with the business entity principle and no adjustments or other consolidation procedures are performed on preparing the consolidated financial statements.

In 2012 and 2011, the Group participated in the following jointly controlled operations:

Name of jointly controlled operation EUR '000	Group's interest		Total value of contract	
	2012	2011	2012	2011
Design and build of the Aruvalla-Kose road section	99%	99%	40,167	39,260
Design and build of construction package no 1 of Tartu city eastern ring road	99%	-	13,944	-
Construction of a water treatment plant for the Väike-Maarja animal waste treatment plant	-	48%	-	1,917
Construction of the Ahtme peak load boiler plant	-	50%	-	8,576
Construction of water and wastewater pipelines and facilities for the town of Maardu	-	50%	-	6,353

Changes in contract volume generally result from changes in construction volume, not from indexation of construction prices. Changes in the Group's interest generally result from agreements between contract partners.

NOTE 15. Other long-term investments

EUR '000	31 December 2012	31 December 2011
Other long-term investments	26	26
Total other long-term investments	26	26

Other long-term investments comprise the Group's 12% interest in E-Trading AS, which is measured at cost because its fair value cannot be measured reliably. In 2012, the carrying value of the investment did not change.

NOTE 16. Investment property

EUR '000	2012	2011
Investment property at 1 January	4,930	4,930
Investment property at 31 December	4,930	4,930

In 2012, rental income on investment properties amounted to 11 thousand euros (2011: 8 thousand euros) and direct property management expenses totalled 3 thousand euros (2011: 3 thousand euros).

Investment properties that do not generate rental income did not give rise to any significant property management expenses.

Potential impact of changes in estimates

The Group measured the fair value of its investment properties using the residual value method. One of the significant valuation assumptions was the compliance of the applied rate of return expected by the owner with effective market conditions. Upon valuation, the applied rates of return fell between 12 and 16%. According to the Group's assessment, in light of the location and stage of development of the properties, the rates corresponded to those expected on the market. A sensitivity analysis reflected that if the expected rate of return were 3% higher, investment properties would have to be written down by around 1,975 thousand euros.

NOTE 17. Property, plant and equipment

EUR '000	Note	Land and buildings	Plant and equipment	Other items of PP&E	Assets under construction	Total
Cost						
At 31 December 2010		2,340	18,373	3,498	115	24,326
Additions		6	740	67	10	823
Disposals		0	-1,067	-103	-2	-1,172
Effect of movements in exchange rates		0	9	-3	0	6
At 31 December 2011		2,346	18,055	3,459	123	23,983
Additions		48	3,221	216	15	3,500
Reclassification	12	0	242	0	0	242
Disposals		0	-2,505	-175	-10	-2,690
Effect of movements in exchange rates		0	-6	-37	0	-43
At 31 December 2012		2,394	19,007	3,463	128	24,992
Depreciation						
At 31 December 2010		308	12,476	2,504	0	15,288
Depreciation for the year		83	1,863	335	0	2,281
Disposals		0	-906	-123	0	-1,029
Effect of movements in exchange rates		0	3	3	0	6
At 31 December 2011		391	13,436	2,719	0	16,546
Depreciation for the year		84	1,643	310	0	2,037
Disposals		0	-2,236	-170	0	-2,406
Effect of movements in exchange rates		0	-4	-32	0	-36
At 31 December 2012		475	12,839	2,827	0	16,141
Carrying amount						
At 31 December 2010		2,033	5,898	993	115	9,039
At 31 December 2011		1,955	4,619	740	123	7,437
At 31 December 2012		1,919	6,168	636	128	8,851

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Group entities have secured their liabilities by mortgaging existing immovable property (plots and buildings). Information on assets pledged as collateral is provided in note 37.

At the reporting date, the Group had no contractual obligations to acquire any items of property, plant and equipment in the next financial years.

Depreciation expense has been recognised in the statement of comprehensive income, in the cost of sales in an amount of 1,916 thousand euros (2011: 2,197 thousand euros) (see note 30) and in administrative expenses in an amount of 121 thousand euros (2011: 84 thousand euros) (see note 31).

Assets acquired with finance leases (included in property, plant and equipment)

EUR '000	2012			2011		
	Plant and equipment	Other items of PP&E	Total	Plant and equipment	Other items of PP&E	Total
Cost at 31 December	8,730	177	8,907	9,575	189	9,764
Carrying amount at 31 December	5,334	98	5,432	3,851	123	3,974

In 2012, the Group entered into new finance lease contracts of 3,292 thousand euros (2011: 672 thousand euros).

NOTE 18. Intangible assets

EUR '000	Note	Goodwill	Software licences	Trademarks	Development expenditures	Total
Cost						
At 31 December 2010		14,851	82	863	323	16,119
Additions		0	4	0	0	4
Disposals		0	-16	0	0	-16
Write-down of goodwill	27, 32	-425	0	0	0	-425
At 31 December 2011		14,426	70	863	323	15,682
Disposals		0	-21	0	0	-21
At 31 December 2012		14,426	49	863	323	15,661
Amortisation						
At 31 December 2010		0	67	566	0	633
Amortisation for the year		0	11	94	0	105
Disposals		0	-16	0	0	-16
At 31 December 2011		0	62	660	0	722
Amortisation for the year		0	10	99	0	109
Disposals		0	-27	0	0	-27
At 31 December 2012		0	45	759	0	804
Carrying amount						
At 31 December 2010		14,851	15	297	323	15,486
At 31 December 2011		14,426	8	203	323	14,960
At 31 December 2012		14,426	4	104	323	14,857

Capitalised development expenditures result from preparations made for the extraction of sand deposits from the seabed. The preparations will continue in 2013.

Amortisation has been recognised in the statement of comprehensive income, in the cost of sales in an amount of 3 thousand euros (2011: 6 thousand euros) (see note 30) and in administrative expenses in an amount of 106 thousand euros (2011: 99 thousand euros) (see note 31).

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 the subsidiaries. Therefore, for the purpose of impairment testing, goodwill is allocated to subsidiaries which represent the lowest level within the Group at which goodwill is monitored for internal management purposes (cash-generating units). The value in use of each subsidiary was determined using the discounted cash flow method and it was compared with the carrying amount of the investment including goodwill.

Carrying amounts of goodwill allocated to the subsidiaries:

Company	Interest 2012	Interest 2011	31 December 2012	EUR '000 31 December 2011
Nordecon AS				
Goodwill*	-	-	8,206	8,206
Subsidiaries				
Nordecon Betoon OÜ	52%	52%	181	181
OÜ Kaurits	66%	66%	2,022	2,022
Eston Ehitus AS	98%	98%	4,017	4,017
Total			14,426	14,426

* The goodwill of former subsidiaries Nordecon Ehitus AS and Nordecon Infra AS. The companies were combined with Nordecon AS from 1 January 2011. Since the merger, those items of goodwill have been carried in the statement of financial position of Nordecon AS.

General assumptions for determining value in use

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

- The forecast period was 2013-2016 plus the terminal year.
- The present value of the 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 the average market value), which according to the Damodaran database were 49.9% and 50.1% (Nordecon AS, Nordecon Betoon OÜ, Eston Ehitus AS) or 42.6% and 57.4% (Kaurits OÜ) respectively, depending on the field of activity of the CGU.

The cost of debt was estimated based on the CGUs' actual loan interest rates, which ranged from of 2.9 to 4.9% and 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 action plans of the CGU for subsequent years (including the budget approved by management for 2013) and an assessment of the market situation in the segment where the CGU operates.
- Changes in subsequent periods' gross margins were projected on the basis of the action plans of the CGU for subsequent years (including the budget approved by management for 2013) and an assessment of the market situation in the segment where the CGU operates.
- Administrative expenses that affect operating cash flow were projected on the basis of the budget approved by management for 2013.
- 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 budget approved by management for 2013 and by applying to it growth rates suitable for subsequent years, estimated by reference to projections of the CGU's future activity.

Nordecon AS	Assumptions applied
Forecast period	2013-2016 + terminal year
Discount rate	9.1%
Revenue change	2013: 11%, 2014-2016: compound annual growth rate (CAGR) 6.0%, terminal year: 1%
Gross margin	2013: based on budget, 2014-2016: gradual growth to 8%, terminal year: 8%
Administrative expenses	See general assumptions, 2013-2016: approx. 3-4% of revenue, terminal year: 4%
Working capital	See general assumptions
Capital expenditures	See general assumptions

Nordecon Betoon OÜ	Assumptions applied
Forecast period	2013-2016 + terminal year
Discount rate	8.9%
Revenue change	2013: -17%, 2014-2016: compound annual growth rate (CAGR) 0.1%, terminal year: 1%
Gross margin	2013: based on budget, 2014-2016: gradual growth to 7.5%, terminal year: 7%
Administrative expenses	See general assumptions, 2013-2016: 3-4% of revenue, terminal year: 4%
Working capital	See general assumptions
Capital expenditures	See general assumptions

Kaurits OÜ	Assumptions applied
Forecast period	2013-2016 + terminal year
Discount rate	8.2%
Revenue change	2013: 5%, 2014-2016: compound annual growth rate (CAGR) 4.1%, terminal year: 1%
Gross margin	2013: based on budget, 2014-2016: gradual growth to 9%, terminal year: 8%
Administrative expenses	See general assumptions, 2013-2016 approx. 4% of revenue, terminal year: 5%
Working capital	See general assumptions
Capital expenditures	See general assumptions. In 2013-2016 the fleet of machinery needs to be renewed.

Eston Ehitus AS	Assumptions applied
Forecast period	2013-2016 + terminal year
Discount rate	10.0%
Revenue change	2013: -16%, 2014-2016: compound annual growth rate (CAGR) 7.4%, terminal year: 1%
Gross margin	2013: based on budget, 2014-2016: gradual growth to 8%, terminal year: 8%
Administrative expenses	See general assumptions, 2013-2016: approx. 2-3% of revenue, terminal year: 2% (own support functions will be minimal; a significant proportion of expenses will be included in project costs)
Working capital	See general assumptions
Capital expenditures	See general assumptions

In 2012, goodwill was not written down. In 2011, the goodwill allocated to Eurocon OÜ was written down by 425 thousand euros.

CGU (EUR '000)	Segment	2012	2011
Eurocon OÜ	Buildings UKR	0	425
Total		0	425

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. The Group's management performed a sensitivity analysis that reflected the impact of a change in discount rates on 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 average discount rate (the rate applied in the calculations was 9.3%) does not exceed 5.2% percentage points, assuming all other variables remain constant.

NOTE 19. Loans and borrowings

Short-term loans and borrowings

EUR '000	Note	31 December 2012	31 December 2011
Overdraft liabilities		6,412	7,628
Current portion of long-term loans and borrowings		12,862	8,666
Of which bank loans		11,593	6,996
Of which finance lease liabilities	20	1,269	1,670
Short-term bank loans		1,051	1,660
Factoring liabilities		6,860	1,176
Total short-term loans and borrowings		27,185	19,130

Long-term loans and borrowings

EUR '000	Note	31 December 2012	31 December 2011
Total long-term loans and borrowings		16,533	18,179
Of which current portion		12,862	8,666
Non-current portion of long-term loans and borrowings		3,671	9,513
Of which bank loans		220	7,265
Of which finance lease liabilities	20	2,467	1,264
Of which other long-term loans		984	984

Details of loans as at 31 December 2012:

EUR '000 Loan type	Base currency	Interest rate	Up to 1 year	1-2 years	3-... years	Total loan	Maturity date
Overdraft*	EUR	6M Euribor+3.95%	2,143	0	0	2,143	31 March 2013
Overdraft	EUR	4.0%	467	0	0	467	30 September 2013
Overdraft	EUR	Bank base rate+2.7%	3,490	0	0	3,490	30 September 2013
Overdraft	EUR	6M Euribor+2.5%	312	0	0	312	31 May 2013
Revolving credit line*	EUR	3M Euribor+4%	1,051	0	0	1,051	30 March 2013
Investment loan*	EUR	6M Euribor+1.5%	3,395	0	0	3,395	11 January 2013
Investment loan	EUR	4.1%	2,911	0	0	2,911	30 October 2013
Investment loan*	EUR	5.0%	1,401	0	0	1,401	31 March 2013
Investment loan	EUR	6M Euribor+1%	55	107	113	275	18 September 2017
Investment loan	EUR	6M Euribor+3.7%	1,850	0	0	1,850	8 June 2013
Investment loan	EUR	3M Euribor+3.7%	1,981	0	0	1,981	4 May 2013
Working capital loan	EUR	5%	0	984	0	984	1 August 2014
Factoring liability	EUR	EONIA+2.5%	6,860	0	0	6,860	29 September 2013
Total loans			25,916	1,091	113	27,120	

* By the date of release of this report, an agreement on refinancing the loan has been signed.

Negotiations with the banks regarding refinancing of the Group's loan commitments will be held during the period March-May 2013. The decisions that will be made will affect all loan liabilities that mature in 2013. By the date of release of this report, banks have approved refinancing agreements in respect of liabilities of 19,001 thousand euros (includes contracts already signed), of which settlement of 13,415 thousand euros has been deferred to 2014.

Details of loans as at 31 December 2011:

EUR '000 Loan type	Base currency	Interest rate	Up to 1 year	1-2 years	3-... years	Total loan	Maturity date
Overdraft	EUR	6M Euribor+3.95%	2,149	0	0	2,149	31 March 2012
Overdraft	EUR	3.82%	1,189	0	0	1,189	30 September 2012
Overdraft	EUR	Bank base rate +2.5%	4,290	0	0	4,290	28 September 2012
Revolving credit line	EUR	4M Euribor+3%	1,660	0	0	1,660	31 March 2012
Investment loan	EUR	6M Euribor+1.5%	1,710	3,728	0	5,438	11 January 2013
Investment loan	EUR	4.1%	0	3,263	0	3,263	30 October 2013
Investment loan	EUR	5.0%	1,401	0	0	1,401	29 December 2012
Investment loan	EUR	6M Euribor+1%	54	107	167	328	18 September 2017
Investment loan	EUR	6M Euribor+3%	1,850	0	0	1,850	8 June 2012
Investment loan	EUR	3M Euribor+3%	1,981	0	0	1,981	4 May 2012
Working capital loan	EUR	5%	0	984	0	984	1 August 2014
Factoring liability	EUR	EONIA+2.2%	1,176	0	0	1,176	29 September 2012
Total loans			17,460	8,082	167	25,709	

NOTE 20. Finance and operating leases

The Group as a lessee

EUR '000	Note	2012	2011
Finance lease liabilities at beginning of year		2,934	4,183
Addition during the year		2,769	672
Principal payments made during the year		-1,967	-1,921
Finance lease liabilities at end of year, of which		3,736	2,934
Payable in less than 1 year	19	1,269	1,670
Payable between 1 and 5 years	19	2,467	1,264
Base currency EUR		3,736	2,934
Interest rate for EUR based contracts*		2.0%- 6.0%	2.0%-7.0%
Interest expense of the period		118	129
Periodicity of payments		Monthly	Monthly

* The base rate for floating rate contracts is generally 3 month or 6 month Euribor.

According to effective contracts, estimated future finance lease rentals are payable as follows:

EUR '000	Minimum lease rentals*	Interest	2012		2011	
			Present value of minimum lease rentals	Minimum lease rentals*	Present value of minimum lease rentals	Minimum lease rentals
Payable in						
Less than 1 year	1,379	110	1,269	1,755	85	1,670
Between 1 and 5 years	2,643	176	2,467	1,329	65	1,264
Total	4,021	285	3,736	3,084	150	2,934

* Minimum lease rentals for leases with a floating interest rate have been determined based on the Euribor rate effective at the reporting date.

Operating lease expenses

Operating lease expenses recognised during the reporting period for:

EUR '000	2012	2011
Cars	649	709
Construction equipment	1,804	2,369
Premises	634	463
IT equipment	358	345
Total operating lease expenses	3,445	3,886

According to effective contracts, future operating lease rentals are payable as follows:

EUR '000		31 December 2012	31 December 2011
Within 1 year	Minimum amount of lease rentals payable	1,377	2,205
Between 1 and 5 years	Minimum amount of lease rentals payable	1,561	1,803

Lease contracts can be terminated before maturity if notice is given in accordance with the agreed terms and conditions.

NOTE 21. Trade payables

EUR '000	Note	31 December 2012	31 December 2011
Trade payables		22,515	21,203
Accrued expenses related to contract work		9,445	6,158
Payables to related parties	38	8	42
Total short-term trade payables		31,968	27,403
Trade payables		259	199
Total long-term trade payables		259	199

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

NOTE 22. Other payables

EUR '000	31 December 2012	31 December 2011
Payables to employees	3,014	2,942
Taxes payable	1,880	1,864
Accrued expenses	114	122
Miscellaneous payables	6	2
Total short-term portion of other payables	5,014	4,930
Other payables	96	96
Total long-term portion of other payables	96	96

Payables to employees comprise remuneration and performance pay payable and accrued vacation pay liabilities.

Accrued expenses include mainly interest accrued on loan liabilities.

Taxes payable

EUR '000	31 December 2012	31 December 2011
Value added tax	547	637
Personal income tax	429	364
Social security tax	735	637
Other taxes	169	226
Total taxes payable	1,880	1,864

NOTE 23. Deferred income

EUR '000	Note	31 December 2012	31 December 2011
Due to customers for contract work	28	11,323	10,535
Prepayments received for goods and services		81	52
Total deferred income		11,404	10,587

NOTE 24. Provisions

EUR '000	31 December 2012	31 December 2011
Short-term provisions	521	485
Long-term provisions	1,210	841
Total provisions	1,731	1,326

Changes in the value of provisions

Under construction contracts, the Group is liable for 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 from the date of delivery.

Warranty provisions (EUR '000)	2012	2011
Opening balance	1,192	1,329
Provisions used and reversed during the year	-711	-368
Provisions recognised during the year	926	231
Closing balance	1,407	1,192
Of which current portion	452	428
Of which non-current portion	955	764
Other provisions (EUR '000)	2012	2011
Opening balance	134	254
Provisions recognised during the year	223	34
Provisions used and reversed during the year	-33	-154
Closing balance	324	134
Of which current portion	69	57
Of which non-current portion	255	77

A significant proportion of other provisions is made up of site rehabilitation provisions set up for rehabilitating the quarries used for the extraction of road construction materials.

NOTE 25. Share capital and reserves

Share capital

EUR '000	2012	2011
At 1 January	19,657	19,657
At 31 December	19,657	19,657

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.

Capital reserve

The Estonian Commercial Code requires companies to establish a capital reserve. Each year one twentieth of profit for the year has to be transferred to the capital reserve until it amounts to one tenth of share capital. The capital reserve may be used for covering losses and increasing share capital but it may not be distributed to shareholders. At the reporting date, share capital stood at 2,554 thousand euros (31 December 2011: 2,554 thousand euros).

Translation reserve

The translation reserve comprises foreign exchange differences arising 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 -404 thousand euros (31 December 2011: -463 thousand euros).

Dividends

In 2012, the parent company Nordecon AS did not distribute any dividends (2011: no dividend distribution).

NOTE 26. Earnings per share

Basic earnings per share are calculated by dividing the profit attributable to equity holders 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 equity holders of the parent by the weighted average number of shares outstanding during the period, both adjusted for the effects of all dilutive equity instruments.

	2012	2011
Profit/loss for the year attributable to owners of the parent (EUR'000)	1,477	-5,304
Weighted average number of shares (in thousands)	30,757	30,757
Basic earnings per share (EUR)	0.05	-0.17
Diluted earnings per share (EUR)	0.05	-0.17

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

NOTE 27. Operating segments

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

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

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

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

Preparation of segment reporting

The prices applied in inter-segment transactions do not differ significantly from market prices. The chief operating decision maker reviews inter-segment transactions separately and analyses their proportion in segment revenue. Respective figures are separately outlined on preparing segment reporting. 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 the utilisation of the resources allocated to it through the profit generated by the segment. The profit of an operating segment is its gross profit that does not include any major exceptional expenditures (such as non-recurring asset write-downs). The expenses after the profit of an operating segment (including distribution and administrative expenses, interest expense, income tax expense) are not used by the chief operating decision maker to assess the performance of the segment on the basis of internally generated financial information.

2012

EUR '000	Buildings EU	Buildings UKR/BLR	Infrastructure EU	Other segments	Total
Total revenue	66,709	356	89,190	4,003	160,258
Inter-segment revenue	-64	-264	-6	-2,192	-2,526
Revenue from external customers	66,645	92	89,184	1,811	157,732
Gross profit/loss of the segment	4,968	-304	5,758	224	10,646
Depreciation and amortisation	-75	-104	-1,173	-664	-2,016
Segment assets	67,157	10,322	24,604	3,321	105,404
Investments in equity-accounted investees	0	0	202	0	202
Capital expenditures	15	237	3,027	463	3,742

2011

EUR '000	Buildings EU	Buildings UKR/BLR	Infrastructure EU	Other segments	Total
Total revenue	68,754	1,749	72,756	6,488	149,747
Inter-segment revenue	0	-146	-21	-4,122	-4,289
Revenue from external customers	68,754	1,603	72,735	2,366	145,458
Gross profit/loss of the segment	-318	-161	2,361	161	2,043
Depreciation and amortisation	-106	-49	-1,322	-712	-2,189
Other significant non-cash items including write-down of assets*	0	-425	0	0	-425
Segment assets	66,308	9,904	21,449	4,029	101,690
Investments in equity-accounted investees	97	0	102	0	199
Capital expenditures	53	1	535	234	823

* Includes write-down of goodwill

Adjustments

EUR '000	2012	2011
Depreciation and amortisation for reportable and other segments	-2,016	-2,189
Adjustments	-130	-197
Consolidated depreciation and amortisation	-2,146	-2,386
Other significant non-cash items for reportable and other segments including write-down of assets	0	-425
Consolidated other significant non-cash items including write-down of assets	0	-425
Capital expenditures for reportable and other segments	3,742	823
Consolidated capital expenditures for reportable segments	3,742	823
Investments in equity-accounted investees	202	199
Consolidated investments in equity-accounted investees	202	199

Reconciliation of segment revenues

EUR '000	2012	2011
Total revenues for reportable segments	156,255	143,259
Revenue for other segments	4,003	6,488
Elimination of inter-segment revenues	-2,526	-4,289
Unallocated revenue	1,690	2,344
Total consolidated revenue	159,422	147,802

Reconciliation of segment profit

EUR '000	2012	2011
Total profit for reportable segments	10,422	1,882
Total profit for other segments	224	161
Elimination of inter-segment profits	-17	-3
Unallocated profits and losses	-2,412	-1,846
Consolidated gross profit	8,217	194
Unallocated expenses:		
Distribution expenses	-389	-317
Administrative expenses	-5,385	-4,641
Other operating income and expenses	244	134
Consolidated operating profit/loss	2,687	-4,630
Finance income	622	938
Finance costs	-1,248	-1,086
Share of loss/profit of equity-accounted investees	-79	100
Consolidated loss before tax	1,982	-4,678

Reconciliation of segment assets

EUR '000	31 December 2012	31 December 2011
Total assets for reportable segments	102,083	97,661
Investments in equity-accounted investees	202	199
Total assets for other segments	3,321	4,029
Inter-segment eliminations	-10,317	-8,894
Unallocated assets	16,341	8,586
Total consolidated assets	111,630	101,581

Geographical information

Revenue (EUR '000)	2012	2011
Estonia	156,801	142,684
Ukraine	348	439
Belarus	8	1,310
Finland	2,649	3,511
Inter-segment eliminations	-384	-142
Total revenue	159,422	147,802

Assets based on geographical location* (EUR '000)	2012	2011
Estonia	28,469	27,253
Ukraine	168	68
Lithuania	1	2
Belarus	0	4
Total assets	28,638	27,327

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

NOTE 28. Construction contracts in progress

Financial information on the Group's construction contracts in progress at the reporting date

Construction contracts in progress

from date of commencement of projects (EUR '000)	31 December 2012	31 December 2011
Contract costs recognised using the stage of completion method	89,065	122,799
Estimated gross profit/loss	6,499	-1,328
Contract revenue recognised using the stage of completion method	95,564	121,471
Progress billings	101,382	124,877
Difference between total progress billings and revenue recognised using stage of completion method	5,818	3,406
Including due from customers (note 9)	5,505	7,129
Including due to customers (note 23)	11,323	10,535

At the reporting date, retentions receivable under construction contracts totalled 4,479 thousand euros (31 December 2011: 2,544 thousand euros) (see note 9).

Potential impact of changes in estimates

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

EUR '000	2012	2011	2012	2011
Change in revenue +5%	9,835	9,338	Change in revenue -5%	-17,620
Change in gross profit	648	663	Change in gross profit	1,295

NOTE 29. Government grants

The Group participates in a pilot project aimed at demonstrating possibilities for using oil shale ash in road construction. The project is funded by the EU structural funds. The Group has received the following amounts in the form of government grants:

Grants related to income (for covering operating expenses) EUR '000	2012	2011
Deferred income from government grants at 1 January	0	0
Received from EU structural funds	237	312
Recognised as income from government grants	237	312
Deferred income from government grants at 31 December	0	0

The amounts received have been recognised in the statement of comprehensive income within revenue. The costs covered with the grant have been recognised in the statement of comprehensive income within the cost of sales.

NOTE 30. Cost of sales

EUR '000	2012	2011
Cost of materials, goods and services	135,279	133,212
Personnel expenses	13,778	12,003
Depreciation and amortisation expense (notes 17, 18)	1,919	2,203
Other expenses	229	190
Total cost of sales	151,205	147,608

In 2012, the Group employed, on average, 764 people (2011: 731 people).

NOTE 31. Administrative expenses

EUR '000	2012	2011
Cost of materials, goods and services	2,020	2,124
Personnel expenses	3,025	2,222
Depreciation and amortisation expense (notes 17, 18)	227	183
Other expenses	113	112
Total administrative expenses	5,385	4,641

NOTE 32. Other operating income and expenses

Other operating income

EUR '000		2012	2011
Gains on sale of property, plant and equipment		530	335
Gains on sale of real estate		0	221
Foreign exchange gain		0	139
Other income		280	111
Total other operating income		810	806

Other operating expenses

EUR '000	Note	2012	2011
Loss on sale and write-off of property, plant and equipment and intangible assets		130	84
Write-down of non-current assets held for sale	12	0	84
Write-down of goodwill	18	0	425
Net loss/gain on write-down and recovery of receivables	35	239	-8
Loss on sale of real estate		0	9
Foreign exchange loss		71	0
Other expenses		126	78
Total other operating expenses		566	672

NOTE 33. Finance income and costs

Finance income

EUR '000	Note	2012	2011
Gain on disposal of investments in subsidiaries	7	0	269
Foreign exchange gain		6	37
Interest income on loans provided		600	623
Other finance income		16	9
Total finance income		622	938

Interest income on loans provided comprises interest income on loans provided to related parties.

Finance costs

EUR '000		2012	2011
Interest expense		1,097	993
Foreign exchange loss		30	8
Other finance costs		121	85
Total finance costs		1,248	1,086

The item of *Other finance costs* includes a write-down of 204 thousand euros recognised for a loan provided to an associate (see note 38) and a one-off reduction of finance costs recognised in previous periods of 181 thousand euros, which was recorded in connection with discontinuance of operations in Belarus (see note 7).

NOTE 34. Income tax expense

EUR '000	%	2012	%	2011
Profit/loss for the year		1,926		-4,708
Income tax expense		-56		-30
Profit/loss before tax		1,982		-4,678
Income tax using the tax rate of the parent company	0%	0	0%	0
Income tax on dividends distributed by an Estonian Group entity	26.6%	-44	0%	0
Income tax in foreign jurisdictions	0.61%	-12	-0.64%	-30
Total income tax expense		-56		-30

Under effective tax laws, the earnings of companies operating in Estonia are not subject to income tax. Corporate income tax is levied on dividends distributed by companies registered in Estonia. The amount of tax payable is calculated as 21/79 of the net distribution. In 2012, one of the Group's Estonian subsidiaries paid a dividend of 166 thousand euros, which gave rise to income tax expense of 44 thousand euros.

NOTE 35. Financial instruments and financial risk management

Credit risk

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

EUR '000	Note	2012	2011
Cash and cash equivalents	8	10,231	9,908
Trade receivables	9	20,408	14,783
Retentions receivable	9	4,479	2,544
Receivables from related parties	9	1,016	982
Loans to related parties	9	11,642	10,267
Other receivables	9	1,400	1,444
Due from customers for contract work	9	5,505	7,129
Total		54,681	47,057

Financial assets by geographical origin at the reporting date

EUR '000	2012	2011
Estonia	53,921	46,614
Ukraine	29	161
Belarus	0	9
Lithuania	80	1
Finland	651	272
Total	54,681	47,057

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

EUR '000	31 December 2012		31 December 2011	
	Trade receivables	Impairment allowance	Trade receivables	Impairment allowance
Not past due	15,732	0	9,066	0
0-30 days past due	1,342	0	4,002	0
31-180 days past due	288	0	780	0
Over 180 days past due *	3,123	-77	3,725	-2,790
Total	20,485	-77	17,573	-2,790

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

Changes in impairment allowance for receivables

EUR '000	2012	2011
Impairment allowance at 1 January	-2,790	-2,955
Impaired items recovered during the year	11	83
Impairment losses on receivables recognised during the year	-250	-75
Items considered irrecoverable during the year	2,952	157
Impairment allowance at 31 December	-77	-2,790

In 2012, impairments recognised for receivables and changes in estimates of the recoverability of receivables gave rise to a net loss of 239 thousand euros. In the comparative period, recovery of receivables written down in preceding periods gave rise to a gain of 8 thousand euros (see note 32).

In 2012, receivables of 2,952 thousand euros were considered irrecoverable. The impairment loss on the receivables was recognised in 2010.

Credit risk related to a significant receivable

The Group has trade receivables of 2,398 thousand euros (plus late payment interest) that are due from the customer of the Seaplane Harbour exhibition building of the Estonian Maritime Museum. The recovery of the receivables depends on the ruling of the Arbitration Court of the Estonian Chamber of Commerce and Industry, which will probably be made in the second half of 2013 and will not be subject to appeal. The Group's management considers the recoverability of the receivables probable because a significant portion of the receivables is supported by statements of delivery and receipt of work performed that have been signed by the customer. The remaining portion is relates to work performed based on the customer's instructions and written orders. The Group's position is that its claim is valid.

Liquidity risk

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

EUR '000

At 31 December 2012

Financial liability	Carrying amount	Contractual cash flows	Less than 1 year	1-2 years	3-5 years	More than 5 years
Overdraft liabilities ¹⁶ (note 19)	6,412	6,544	6,544	0	0	0
Bank and other loans (note 19)	13,848	14,137	12,848	1,176	113	0
Finance lease liabilities (note 20)	3,736	4,021	1,379	1,378	1,264	0
Factoring liabilities (note 19)	6,860	6,886	6,886	0	0	0
Trade payables (note 21)	32,227	32,227	31,968	259	0	0
Other payables (note 22)	3,230	3,230	3,134	96	0	0
Total	66,313	67,045	62,759	2,909	1,377	0

EUR '000

At 31 December 2011

Financial liability	Carrying amount	Contractual cash flows	Less than 1 year	1-2 years	3-5 years	More than 5 years
Overdraft liabilities ¹⁶ (note 19)	7,628	7,818	7,818	0	0	0
Bank and other loans (note 19)	16,905	17,667	9,126	8,372	169	0
Finance lease liabilities (note 20)	2,934	3,084	1,755	1,058	271	0
Factoring liabilities (note 19)	1,176	1,180	1,180	0	0	0
Trade payables (note 21)	27,602	27,602	27,403	199	0	0
Other payables (note 22)	3,162	3,162	3,066	96	0	0
Total	59,407	60,513	50,348	9,725	440	0

¹⁶ Contractual cash flows have been determined based on the contract terms (interest rates and maturity dates) effective at the reporting date.

At the end of the reporting period the Group had access to the following overdraft and factoring finance facilities:

- an overdraft facility of 1,579 thousand euros with a fixed interest rate of 3.82% per year;
- an overdraft facility of 1,510 thousand euros with an interest rate of the bank's base rate plus 2.7% per year;
- an overdraft facility of 377 thousand euros with an interest rate of 6M Euribor plus 2.5% per year;

In addition to overdraft facilities, the Group has access to factoring limits of 8,762 thousand euros in aggregate that can be used to speed up recovery of receivables that have long settlement terms.

Guarantee commitments accounted for off the statement of financial position

Banks have provided the Group with construction-related guarantees of 34,629 thousand euros (2011: 36,118 thousand euros). According to management's estimates, at the reporting date the risk of realisation of the guarantees was low. During the period 2007-2012 no bank guarantees were called upon due to non-satisfaction of obligations related to construction activity.

Refinancing of current financial liabilities in 2013

The Group believes that in 2013 loan liabilities of 13,415 thousand euros, which at the reporting date were classified as current items, can be refinanced for a period exceeding twelve months. This will involve refinancing short-term overdrafts of 4,269 thousand euros and refinancing/negotiation repayment holidays for long-term loans of 9,146 thousand euros (for further information, see note 5 *Financial risk management – Liquidity risk* and note 19).

Currency risk

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

'000						2012
	EUR	LTL	USD	BYR	UAH	
Cash and cash equivalents	10,125	275	0	0	285	
Short-term receivables	42,979	32	0	0	969	
Long-term receivables	503	0	1,388	0	0	
Total	53,607	307	1,388	0	1,254	
Current liabilities	62,288	3	0	0	1,790	
Non-current liabilities	4,026	0	0	0	0	
Total	66,314	3	0	0	1,790	
Net exposure	-12,707	304	1,388	0	-536	

'000						2011
	EUR	LTL	USD	BYR	UAH	
Cash and cash equivalents	9,883	3	0	95,234	160	
Short-term receivables	33,526	31	1,251	0	1,638	
Long-term receivables	2,504	0	0	0	0	
Total	45,913	34	1,251	95,234	1,798	
Current liabilities	49,275	2	0	1,782,702	1,455	
Non-current liabilities	908	0	0	0	0	
Total	59,083	2	0	1,782,702	1,455	
Net exposure	-13,170	32	1,251	-1,687,468	343	

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

	Date	Lithuanian litas (LTL)	US dollar (USD)	Belarusian ruble (BYR)	Ukrainian hryvna (UAH)
1 euro (EUR)	31 December 2012	3.4528	1.3194	11,340.00	10.5372
1 euro (EUR)	31 December 2011	3.4528	1.2939	10,800.00	10.2981

Potential impact of changes in estimates

The Group assessed how the weakening or strengthening of the Group's presentation currency, the euro, against the currencies of receivables and liabilities and cash and cash equivalents denominated in foreign currency in the Group's statement of financial position as at the end of the reporting period would have affected the Group's net result (profit or loss) for the year. The analysis assumes that all other variables remain constant.

EUR '000	31 December 2012	31 December 2011
Strengthening of euro by 10%	-99	-78
Weakening of euro by 10%	121	95

Interest rate risk

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

EUR '000	2012	2011
Fixed rate financial instruments		
Financial assets (loans provided to related parties and legal persons) (notes 9 and 38)	11,642	10,267
Financial liabilities (note 19)	5,763	6,837
Floating rate financial instruments		
Financial assets (cash and cash equivalents) (note 8)	10,231	9,908
Financial liabilities (including finance lease liabilities) (note 19)	25,093	21,806
Net exposure	-14,862	-11,898

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

	31 December 2012	31 December 2011
3 month Euribor	0.187%	1.356%
6 month Euribor	0.320%	1.617%
EONIA	0.131%	0.629%
Bank's base rate	0.709%	1.029%

Potential impact of changes in estimates

An increase or a decrease of 100 basis points in the variable component of the interest rate at the reporting date would increase or reduce subsequent periods' interest expense on interest-bearing financial liabilities by 149 thousand euros (2011: 163 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	2012		2011	
	Carrying amount	Fair value	Carrying amount	Fair value
Cash and cash equivalents (note 8)	10,231	10,231	9,908	9,908
Trade receivables (note 9)	20,408	20,408	14,783	14,783
Retentions receivable (note 9)	4,479	4,479	2,544	2,544
Receivables from related parties (note 9)	1,016	1,016	982	982
Loans to related parties (note 9)	11,642	11,696	10,267	10,321
Other receivables (note 9)	1,400	1,400	1,444	1,444
Overdraft liabilities (note 19)	-6,412	-6,412	-7,628	-7,628
Bank and other loans (note 19)	-13,848	-13,920	-16,905	-16,930
Finance lease liabilities (note 19, 20)	-3,736	-3,736	-2,934	-2,934
Factoring liabilities (note 19)	-6,860	-6,860	-1,176	-1,176
Trade payables (note 21)	-32,219	-32,219	-27,560	-27,560
Payables to related parties (note 21)	-8	-8	-42	-42
Other payables (note 22)	-3,230	-3,230	-3,162	-3,162
Unrealised loss/gain		-19		29

The carrying amounts of the Group's short-term financial assets and liabilities do not differ significantly from their fair values. The carrying values of long-term floating rate assets and liabilities approximate their fair values because the floating component of the interest rate reflects the change in market interest rates.

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

Average market interest rate	2012	2011
Loans provided	6%	7%
Loans received*	3.21%	4.35%

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

NOTE 36. Contingent liabilities

Contingent income tax liability

EUR '000	31 December 2012	31 December 2011
Retained earnings	6,039	4,563
Contingent income tax liability	-1,268	-958
The amount that could be distributed as the net dividend	4,771	3,605

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

Guarantees and surety commitments provided

The Group has obtained bank guarantees and signed surety agreements to secure settlement of Group entities' commitments under construction contracts and their financial liabilities. The guarantees that banks have issued to the Group's customers are secured with commercial pledges. The guarantees expire within up to five years. 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, bank guarantees provided to customers for securing Group entities' commitments under construction contracts totalled 34,629 thousand euros (31 December 2011: 36,118 thousand euros).

Surety commitments assumed

At the reporting date, the Group had agreed to stand surety to the liabilities of its associates and non-Group third parties of 153 thousand euros (31 December 2011: 1,085 thousand euros). Surety commitments have decreased through expiry of underlying liabilities.

Pending litigation

On 11 July 2011, Aivar Noormets, a non-controlling shareholder in the Group's subsidiary Eurocon OÜ, brought an action against Nordecon AS, seeking that Nordecon AS purchase his share in Eurocon OÜ, the par value of which was 969 euros, for 538,520 euros. Aivar Noormets filed the claim based on an agreement on the division and sale of the share in the company signed between him, Marika Noormets and Nordecon AS on 12 February 2008. The agreement gave Aivar Noormets the right to demand after the approval of the financial results of Eurocon OÜ for 2009 that his share be purchased for at least the above price. According to the assessment of Nordecon AS, the share cannot be purchased on the basis of the above agreement because the agreement does not specify the terms and conditions for the transfer of the share. Tallinn Circuit Court agreed with Nordecon AS in this respect. However, the court satisfied the claimant's demand, ruling that Nordecon AS has to compensate for the damage caused by not signing a separate agreement for the sale of the share with the claimant as agreed in the agreement on the sale of the share in the company.

According to the legal opinion commissioned by Nordecon AS, filing of such a claim creates a precedent and does not take into account the actual intentions of the parties on the transfer of the share in the company. Nordecon AS has appealed the ruling of the Circuit Court to the Supreme Court. The Supreme Court will probably not rule on the matter during next financial year. Accordingly, at the reporting date, the outcome of the action is regarded as a contingent liability whose realisation may only be confirmed by a future court ruling that differs from earlier judicial practice.

NOTE 37. 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 to the extent of 50,502 thousand euros (31 December 2011: 50,502 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 immovable property (plots and buildings) mortgaged by the Group's parent and subsidiaries amounted to 33,105 thousand euros (31 December 2011: 31,728 thousand euros). In the reporting period, The Group increased its existing mortgages by 966 thousand euros and created additional mortgages of 411 thousand euros. Assets of the following classes have been mortgaged:

Line item in the statement of financial position (EUR '000)	2012	2011
Inventories (note 11)	14,701	23,302
Investment property (note 16)	639	639
Property, plant and equipment (land and buildings) (note 17)	767	767
Mortgages that cannot be linked to a specific asset class*	16,998	7,020
Total	33,105	31,728

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

Share pledges

The Group has secured its loan liabilities by pledging its shares in the following subsidiaries: Eston Ehitus AS (98%), Järva Teed AS (100%) and Hiiu Teed OÜ (100%) (2011: shares in Eston Ehitus AS (98%)).

NOTE 38. 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 connected with them
- Individuals whose shareholding implies significant influence

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

EUR '000	2012		2011	
Volume of transactions performed	Purchase	Sale	Purchase	Sale
AS Nordic Contractors	370	3	416	5
Companies of AS Nordic Contractors group	20	5,873	2	1,947
Equity-accounted investees	180	23	296	9
Companies related to a member of the council	59	0	0	0
Total	629	5,899	714	1,961

EUR '000	2012		2011	
Nature of transactions performed	Purchase	Sale	Purchase	Sale
Construction services	268	5,880	354	1,906
Lease and other services	361	19	360	55
Total	629	5,899	714	1,961

In 2012, the Group recognised interest income on loans to associates of 491 thousand euros (2011: 454 thousand euros), on loans to joint ventures of 111 thousand euros (2011: 108 thousand euros) and on loans to other related parties of nil euros (2011: 61 thousand euros).

Receivables from and liabilities to related parties at period-end (see notes 9 and 21)

EUR '000	31 December 2012		31 December 2011	
	Receivables	Liabilities	Receivables	Liabilities
AS Nordic Contractors	1	8	1	42
Companies of AS Nordic Contractors group	584	0	1	0
Associates - receivables	430	4	980	0
Associates – loans and interest	9,754	0	8,528	0
Joint ventures – loans and interest	1,889	0	1,739	0
Total	12,658	12	11,249	42

Receivables from companies of AS Nordic Contractors group and associates have mostly arisen from the provision of construction services.

Loan and accrued interest receivables from related parties

EUR '000	Related party	Interest rate	Currency	2012		2011	
				Loan	Of which interest	Loan	Of which interest
Kastani Kinnisvara OÜ	Associate	10.0%	EUR	195	2	263	30
Sepavara OÜ	Associate	6.0%	EUR	0	0	203	30
Pigipada OÜ	Associate	5.0%	EUR	175	0	234	0
Technopolis-2 TOV	Associate	11.0%	USD	1,051	374	967	306
V.I. Center TOV	Associate	6.0%	EUR	8,332	1,544	6,861	1,179
Unigate OÜ	Joint venture	8.0%	EUR	1,889	507	1,739	396
Total				11,642	2,427	10,267	1,941
Of which current portion				10,474	2,427	8,150	1,515
Of which non-current portion				1,168	0	2,117	426

In the reporting period, the Group gave associates loans of 1,460 thousand euros (2011: 183 thousand euros) and associates settled loan liabilities of 399 thousand euros (2011: 1,745 thousand euros). In 2012, the Group wrote down its loan receivables from the associate Sepavara OÜ by 204 thousand euros (see notes 13 and 33). This was the amount by which the Group's loan and interest receivables from the associate exceeded its interest in the associate's expected pre-liquidation net assets.

In addition, the Group wrote down the loans given to Kastani Kinnisvara OÜ by 50 thousand euros (2011: 46 thousand euros) (see notes 13 and 33).

Loans provided to joint ventures in 2012 totalled 39 thousand euros (2011: 30 thousand euros).

Remuneration of the members of the council and the board

The service fees of the members of the council of Nordecon AS for 2012 amounted to 141 thousand euros and associated social security charges totalled 47 thousand euros (2011: 69 thousand euros and 23 thousand euros respectively). The figure has increased in connection with the decision of Nordecon AS's annual general meeting to increase the council's fees as from 2012. Expenses on the provision made for their performance bonuses that are calculated based on the Group's consolidated financial results amounted to 52 thousand euros and associated social security charges totalled 17 thousand euros (in 2011 no bonus provisions were made).

The service fees of the members of the board of Nordecon AS for 2012 amounted to 248 thousand euros (including the service fees and termination benefits of the member of the management board that was removed on 30 April 2012) and associated social security charges totalled 82 thousand euros (2011: 238 thousand euros and 78 thousand euros respectively). Expenses on the provision made for their performance bonuses that are calculated based on the Group's consolidated financial results amounted to 201 thousand euros (including the proportionate share of the member of the management board that was removed on 30 April 2012) and associated social security charges totalled 66 thousand euros (in 2011 no bonus provisions were made).

NOTE 39. Subsequent events

Refinancing of loans receivable

The Group prolonged by 12 months loan agreements of 1,382 thousand euros whose maturity fell between the end of the reporting period and the date of release of this report.

Refinancing of loans and borrowings

The banks financing the Group have prolonged by twelve months loan agreements of 7,990 thousand euros whose maturity fell between the end of the reporting period and the date of release of this report (see note 19).

NOTE 40. Parent company's primary financial statements

Under the Estonian Accounting Act, the unconsolidated 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 company, the same accounting policies are used as in preparing the consolidated financial statements, except that investments in subsidiaries, joint ventures and associates are measured at cost less any impairment losses

Statement of financial position

EUR '000	31 December 2012	31 December 2011
ASSETS		
Current assets		
Cash and cash equivalents	8,688	8,009
Trade and other receivables	39,628	29,226
Prepayments	1,380	1,312
Inventories	16,198	14,836
Total current assets	65,894	53,383
Non-current assets		
Investments in subsidiaries	11,056	10,875
Investments in associates and joint ventures	1	99
Investment property	1,637	1,637
Trade and other receivables	340	2,467
Property, plant and equipment	4,749	2,994
Intangible assets	8,309	8,409
Total non-current	26,092	26,481
TOTAL ASSETS	91,986	79,864
LIABILITIES		
Current liabilities		
Loans and borrowings	22,302	13,900
Trade payables	25,074	19,618
Taxes payable	1,208	941
Other payables	6,970	5,456
Deferred income	9,452	8,317
Provisions	283	212
Total current liabilities	65,289	48,444
Non-current liabilities		
Loans and borrowings	1,805	7,605
Other liabilities	158	158
Provisions	772	676
Total non-current liabilities	2,735	8,439
TOTAL LIABILITIES	68,024	56,883
EQUITY		
Share capital	19,657	19,657
Share premium*	569	569
Statutory capital reserve	2,534	2,534
Retained earnings	1,202	221
TOTAL EQUITY	23,962	22,981
TOTAL LIABILITIES AND EQUITY	91,986	79,864

* The share premium recognised in the parent company's statement of financial position was acquired on the company's merger with the subsidiary Nordecon Infra AS in 2010. The subsidiary had recognised share premium on an intra-Group business combination of entities under common control. Therefore, share premium was eliminated on preparing the consolidated financial statements.

Statement of comprehensive income

EUR '000	2012	2011
Revenue	116,191	107,861
Cost of sales	-111,143	-109,175
Gross profit/loss	5,048	-1,314
Distribution expenses	-309	-263
Administrative expenses	-3,615	-3,090
Other operating income	324	315
Other operating expenses	-243	-42
Operating profit/loss	1,205	-4,394
Finance income	1,008	871
Finance costs	-1,232	-803
Net finance costs/income	-224	68
Profit/loss before income tax	981	-4,326
Profit/loss for the year	981	-4,326
Total comprehensive income/expense for the year	981	-4,326

Statement of cash flows

EUR '000	2012	2011
Cash flows from operating activities		
Cash receipts from customers ⁷	140,779	137,953
Cash paid to suppliers ⁸	-119,775	-123,404
Cash paid to and for employees	-8,721	-6,763
VAT paid	-4,256	-616
Net cash from operating activities	8,027	7,170
Cash flows from investing activities		
Acquisition of property, plant and equipment	-1,738	0
Capital contributions to subsidiaries	-55	0
Loans provided	-1,256	-342
Repayment of loans provided	121	1,688
Interest received	266	192
Dividends received	86	0
Net cash used in/from investing activities	-2,576	1,538
Cash flows from financing activities		
Proceeds from loans received	2,785	1,910
Repayment of loans received	-6,025	-4,669
Payment of finance lease liabilities	-730	-667
Interest paid	-802	-788
Net cash used in financing activities	-4,772	-4,214
Net cash flow	679	4,494
Cash and cash equivalents at beginning of year	8,009	3,515
Increase in cash and cash equivalents	679	4,494
Cash and cash equivalents at end of year	8,688	8,009

⁷ Line item *Cash receipts from customers* includes VAT paid by customers.

⁸ Line item *Cash paid to suppliers* includes VAT paid.

Statement of changes in equity

EUR '000	Share capital	Share premium	Statutory capital reserve	Retained earnings	Total
At 31 December 2010	19,657	569	2,534	4,547	27,307
Loss for the year	0	0	0	-4,326	-4,326
At 31 December 2011	19,657	569	2,534	221	22,981
Carrying amount of interests under control and significant influence	-	-	-	-	-10,974
Value of interests under control and significant influence under the equity method	-	-	-	-	4,488
Adjusted unconsolidated equity at 31 December 2011	-	-	-	-	16,495
At 31 December 2011	19,657	569	2,534	221	22,981
Profit for the year	0	0	0	981	981
At 31 December 2012	19,657	569	2,534	1,202	23,962
Carrying amount of interests under control and significant influence	-	-	-	-	-11,057
Value of interests under control and significant influence under the equity method	-	-	-	-	5,046
Adjusted unconsolidated equity at 31 December 2012	-	-	-	-	17,951

Statements and signatures of governing bodies

Statement of management's responsibility

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 2012 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 effective financial reporting standards, give a true and fair view of the assets, liabilities, financial position, financial performance, and cash flows of the Group consisting of the parent company and other consolidated entities;

Jaano Vink
Chairman of the Board
22 April 2013



Avo Ambur
Member of the Board
22 April 2013



Erkki Suurorg
Member of the Board
22 April 2013



Council:

The council has approved the annual report prepared by the management board, which consists of management's discussion and analysis and the consolidated financial statements and which has been appended the independent auditor's report and the profit allocation proposal, for presentation to the general meeting of the shareholders.

Toomas Luman
Chairman of the Council
25 April 2013



Alar Kroodo
Vice-chairman of the Council
25 April 2013



Andri Hõbemägi
Member of the Council
25 April 2013



Tiina Mõis
Member of the Council
25 April 2013



Meelis Milder
Member of the Council
25 April 2013



Ain Tromp
Member of the Council
25 April 2013





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INDEPENDENT AUDITORS' REPORT

To the shareholders of Nordecon AS

We have audited the accompanying consolidated financial statements of Nordecon AS, which comprise the consolidated statement of financial position as at 31 December 2012, the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information, as set out on pages 37 to 89.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (Estonia). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at 31 December 2012, 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.

Emphasis of Matter

Without qualifying our opinion, we draw attention to note 5 to the consolidated financial statements, where the circumstances related to loans in the amount of EUR 8,332 thousand granted to finance business activities in Ukraine which are presented under current assets are described. According to management's assessment, despite of positive developments during the last financial year, due to the complicated economic environment of Ukraine and an aggregate impact of other possible matters, an uncertainty exists as to whether the loans referred to above can be collected during the next 12 months as stipulated in the loan agreements.

Andres Root
Authorized Public Accountant No 9
KPMG Baltics OÜ
Licence No 17
Narva mnt 5, Tallinn 10117
22 April 2013

KPMG Baltics OÜ, an Estonian limited liability company and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ('KPMG International'), a Swiss entity, Reg no 10096082.

Profit allocation proposal

The board proposes that the general meeting of Nordecon AS allocate the profit as follows:

	EUR '000
Retained earnings of prior years	4,563
Profit for 2012	1,477
Effect of rounding	-1
Total distributable profit at 31 December 2012	6,039

The board proposes that the profit be retained and no transfers be made to the statutory reserve.

Jaano Vink

Chairman of the Board

22 April 2013

Avo Ambur

Member of the Board

22 April 2013

Erkki Suurorg

Member of the Board

22 April 2013