



## Annual report 2013

<b>Business name</b>	Nordecon AS
<b>Registry number</b>	10099962
<b>Address</b>	Pärnu mnt 158/1, 11317 Tallinn
<b>Domicile</b>	Republic of Estonia
<b>Telephone</b>	+372 615 4400
<b>E-mail</b>	<a href="mailto:nordecon@nordecon.com">nordecon@nordecon.com</a>
<b>Corporate website</b>	<a href="http://www.nordecon.com">www.nordecon.com</a>
<b>Core business lines</b>	Construction of residential and non-residential buildings (EMTAK 4120) Construction of roads and motorways (EMTAK 4211) Road maintenance (EMTAK 4211) Construction of utility projects for fluids (EMTAK 4221) Construction of water projects (EMTAK 4291) Construction of other civil engineering projects (EMTAK 4299)
<b>Financial year</b>	1 January 2013 – 31 December 2013
<b>Council</b>	Toomas Luman (chairman of the council), Alar Kroodo, Andri Hõbemägi, Tiina Mõis, Meelis Milder, Ain Tromp
<b>Board</b>	Jaano Vink (chairman of the board), Avo Ambur, Erkki Suurorg
<b>Auditor</b>	KPMG Baltics OÜ

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## About the Group

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

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

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

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

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

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 increase the value of their assets.

## SHARED VALUES

### **Professionalism**

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

### **Reliability**

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

### **Openness**

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

### **Employees**

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

## Message from the chairman of the council

At the time I am writing this message, Nordecon is celebrating its 25<sup>th</sup> year of operation. The currently successful and profitable listed company was founded in a highly challenging period of transition from a planned economy to a market economy. Our first quarter of a century brought us both external and internal challenges as well as associated new opportunities. I am sure it will continue to be so also in the future. Operating in a dynamic field is part of our daily work and we are committed to facing all the changes in our operating environment, be they positive or negative, as well as we can.

A year ago we set for 2013 a clear target of seizing the opportunities offered by the improved market conditions as we could see that the state was going to continue investing in infrastructure and private sector demand was going to increase. I am pleased to report that we achieved strong results both in terms of revenue growth and profitability and several financial indicators were probably the best in the group's history. In contrast to the construction boom at the end of the previous decade, when the results of the construction sector were fuelled by a surge in borrowings, in 2013 the economic situation in Estonia was somewhat more stable while competition was considerably more intense. Nordecon's revenue per employee grew vigorously, by around 10% during the year. For comparison, in the same period the corresponding productivity indicator for the Estonian construction sector rose by 7% and the Estonian economy as a whole grew by 6%.

We believe that operating efficiency is the bedrock of corporate growth and profitability and, thus, will do our best to ensure it in delivering our services. Although the construction market is expected to experience a certain setback in 2014, we are confident that in the medium long perspective the market will grow. In light of this, we have set ourselves the goal of conducting our operations so that we could grow flexibly and take the maximum advantage of the situation.

**Toomas Luman**

Chairman of the Council

## Chief executive's statement

Although last year was in several respects encouraging for companies operating in the Estonian construction market, it also made them take a hard look into the future and think about the changes they would again have to face. It was the last year of the EU 2007-2013 financial framework and thus allocations made from the EU structural funds for the construction of public buildings and infrastructure assets diminished compared with previous years. In all likelihood, the era where unprecedentedly large infrastructure projects were procured ended along with that budget period. The new seven-year financial framework will reach full swing only next year and most probably we will see a more modest approach to public investment decisions.

From the point of view of builders, the shrinkage in EU-financed investments and national investment programmes has been counterbalanced in recent years by private sector investments. For Nordecon, last year was highly successful in this respect – new contracts were signed predominantly with private sector customers that have faith in the Estonian economy and are willing to invest in it.

For Nordecon, the year 2013 was one of strong performance. Revenue fell short of the boom-time years (2007-2008) of the previous decade only and profitability improved for the second consecutive year. We achieved this mostly by remaining true to the strategy of operating concurrently in all major segments of the construction market and continuing internal streamlining with a view to increasing operating efficiency. All in all, both revenue of 174 million euros and net profit of 4.6 million euros exceeded the targets set at the beginning of the year and assured us that we are on the right track.

Our order book decreased visibly towards the year-end. It was a deliberate move prompted by the strained situation in the construction market and the desire to reduce the risk of onerous contracts. For years, we have been investing in effective cost management and today we can focus mainly on projects where we see profit potential. Over several years, there was also a structural change in our portfolio: at the year-end the order book of the Buildings segment was considerably larger than that of the Infrastructure segment.

We delivered many interesting and important projects. A selection of them reflects an even representation of different construction segments in Nordecon's operations: road construction projects of national importance such as the Aruvalla-Kose section of the Tallinn-Tartu motorway and the Tartu bypass, construction of Kärkla guest harbour - the largest on the island of Hiiumaa and berths 12-15 at Sillamäe port, new wastewater treatment plants and agriculture-related assets, dozens of kilometres of utility networks at Assaku, Vaida, Jüri, Võru, Valga and Kiviõli, commercial and residential buildings in Kentmanni street and Rotermanni quarter in Tallinn and in Rütli street in Tartu, not to mention numerous other buildings and infrastructure assets across Estonia.

The year 2014 is special for Nordecon because on 1 February 25 years passed since the day the group started its operation. I extend my sincere thanks to all employees that have worked for us over the years or a still with us as well as all our customers and business partners with whom we have shaped the years.

Although the year ahead will be challenging because the construction market is going to shrink yet again and competition is going to intensify, we can make our plans in quite a positive spirit because our dedicated team can respond flexibly to almost any rapid change in the construction sector.

### Jaano Vink

Chairman of the Board



The QR code leads to a short video of Nordecon's 25<sup>th</sup> jubilee celebrations.

## Management's discussion and analysis

### Strategic agenda for 2014-2017

The Group's strategic business agenda and targets for the period 2014-2017

#### Business activities

- Our business operations in Estonia will be equally divided between two segments, building and infrastructure construction, where we will compete in all major sub-segments.
- Our chosen foreign markets are Finland, Ukraine, Latvia and Lithuania. In the first two, we will conduct our business through local subsidiaries. Entering the Latvian and Lithuanian construction market through local subsidiaries assumes an economic rationale and the earliest time for this will be 2015. Where economic rationale exists, we may also deliver construction services in our neighbouring countries (Latvia, Lithuania and Sweden) on a project basis.
- We will focus on our real estate development operations in Estonia (in Tallinn, Tartu, Pärnu and Narva).
- We will develop our energy efficiency and building information modelling (BIM) competencies as developments in these areas are likely to lead to a new quality standard in the construction market.
- We will build strategic alliances in areas where we lack competence.

#### Group structure and organisation

- The Group's structure is optimal and we are not going to change it unless significant changes take place in the construction market.
- We will continue consistent investment in our IT-capabilities and -integration both at the level of the organisation and the employee.
- We will apply additional measures for improving cooperation between Group entities and structural units.

#### Financial targets

- By 2017 our gross margin will be at least 8% and EBITDA margin at least 6%.
- Administrative expenses will not exceed 4% of annual revenue.
- We will distribute, whenever possible, at least 15% of profit before tax for the year as dividends.
- In Estonia, our own real estate development operations will generate up to 5% of total revenue.

## Organisation of the Group's operations in Estonia and foreign markets

### Estonia

In the reporting period, we were involved in building and infrastructure construction, being active in practically all market sub-segments. A significant proportion of the core business was conducted by the parent, Nordecon AS, which also acts as a holding company for the Group's main subsidiaries. In addition to the parent, the core business was conducted by the subsidiary AS Eston Ehitus, which operates mostly in western and central Estonia, offering construction management services.

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

We did not enter any new segments in Estonia.

### Foreign markets

#### Latvia

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

#### Lithuania

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

#### Ukraine

There were no changes in our Ukrainian operations in the reporting period. The economic and political situation in the country did not change until the end of 2013 when political tensions flared up. Our Ukrainian revenues increased compared with recent years but the situation in the country did not allow us to grow our business significantly even though the number of bids requested for new construction projects increased somewhat.

Real estate development projects that require extensive investment (we have currently stakes in two conserved development projects) remain suspended to minimise risks until the situation in Ukraine stabilises. To secure the investment, in 2012 we privatised the land of the V.I. Center TOV development project together with the other shareholders. In the first half of 2013, the privatised plots were mortgaged for the benefit of the owners.

#### Finland

There were no changes in our Finnish operations during the period. The Group's subsidiary Nordecon Betoon OÜ and its Finnish subsidiary Estcon Oy continued to provide subcontracting services in the concrete works sector in Finland. In 2013, the contribution of our Finnish operations grew to 5% of the Group's total revenue.

## Performance by geographical market

In 2013, around 5% of the Group's revenue was generated outside Estonia compared with 2% in 2012.

	2013	2012	2011	2010	2009
Estonia	95%	98%	97%	94%	86%
Ukraine	0%	0%	0%	2%	3%
Latvia	0%	0%	0%	0%	11%
Belarus	0%	0%	1%	3%	0%
Finland	5%	2%	2%	1%	0%

Finnish revenues comprise revenue from concrete works. In 2013 our Finnish subsidiary won a large contract that increased its business volumes. In 2014 the contribution of foreign markets should remain similar to 2013.

In the long term our strategy foresees increasing foreign operations but in the short term we will focus on the Estonian market that we know best and which entails fewer known market risks. Our vision of 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 housing development.

The Group's revenue for 2013 amounted to 173,651 thousand euros, a 9% improvement on the 159,422 thousand euros generated in 2012 when revenue grew by 8%. The foundation for revenue growth was laid in 2011-2012 when the Estonian construction market recovered from the slump and the Group secured a number of major new contracts lasting for over 12 months. The year 2013 was also successful in terms of winning new contracts, particularly as regards contracts secured from the private sector.

We strive to keep the revenues of our operating segments (Buildings and Infrastructure) in balance as this helps disperse risks and provides better opportunities for continuing operations in stressed circumstances when one segment may experience shrinkage and we have set a strategic ceiling for revenue from the construction of apartment buildings, which has to remain below 20% of total sales (according to the strategy in place until the end of 2013).

### Estonian construction market in 2013

According to preliminary statistics released by Statistics Estonia, in 2013 Estonian construction companies' total output (measured in current prices) amounted to 2,200 million euros of which 1,998 million euros was generated in Estonia (2012: 2,079 million euros and 1,857 million euros respectively). According to the construction production index, the Estonian construction market grew by around 2% (2012: 18%) year on year. Buildings were built for 1,303 million euros and infrastructure assets for 897 million euros (2012: 1,222 million euros and 824 million euros). The construction market expanded for the third consecutive year in both of the main segments. Similarly to 2012, the rise in overall demand and particularly in the infrastructure segment was driven by investments made with the support of the EU structural funds.

In building construction growth was underpinned rather by investments made by the private sector and the continuing recovery of the real estate market. The number of new dwellings that received permits of use continued to grow: in 2013 permits of use were granted to 2,079 new dwellings (2012: 1,990). Construction permits were issued for 3,049 new dwellings, a figure similar to the previous year. The number of permits of use issued should continue to grow because thanks to the revival of the real estate market increasing numbers of suspended development projects are being re-launched. Another indicator that shows a rise in private investors' investment activity is the number of permits of use granted to non-residential premises. Even though the total number of those premises did not change significantly (887 in 2013 and 840 in 2012), their net usable area grew from 474,000 square metres in 2012 to 607,000 square metres in 2013. The largest growth occurred in the construction of new warehouse, agricultural and industrial premises.

Construction output (volumes)*	2012	2011	2010	2009	2008	2007
Construction output in Estonia, in EUR millions	2,046	1,660	1,275	1,515	2,397	2,758
Of which buildings	1,222	958	718	902	1,579	1,954
Of which infrastructure assets	824	702	557	613	818	804

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

### Segment revenues

In 2013, the revenues of our Infrastructure segment were expectedly larger than those of our Buildings segment, the figures for the two segments being 98,550 thousand euros and 71,694 thousand euros respectively. The corresponding figures for 2012 were 89,166 thousand euros for Infrastructure and 66,924 thousand euros for Buildings (note 26). Compared with 2012, the Infrastructure segment increased revenue by 11%, mostly in the road construction and environmental engineering sub-segments. The revenues of the Buildings segment grew by 7%, driven mainly by the construction of commercial buildings.

For a long time, the bulk of work in the construction market was related to infrastructure assets (mostly assets financed with the support of the state and the EU structural funds) and at the beginning of 2013 a larger share (65%) of contracts in our order book were also related to the Infrastructure segment. Therefore, the above revenue distribution between the two segments was in line with expectations.

## Revenue by segment\*

Operating segments	2013	2012	2011	2010	2009
Buildings	41%	42%	48%	48%	45%
Infrastructure	59%	58%	52%	52%	55%

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

In *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 annual 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 have been allocated in both parts of the annual report based on the nature of the work.

## Sub-segment revenues

Last year's rise in private sector investments laid the foundation for rapid revenue growth in the commercial buildings sub-segment. We continued work under previously secured contracts for the construction of commercial buildings in Tallinn and Tartu and secured a contract of over 15 million euros for building an extension to the ASTRI shopping centre in Narva and a contract of over 9 million euros for building the Stroomi shopping centre in Tallinn. We expect the investment activity of private sector customers to remain robust and the contribution of the sub-segment to remain substantial also in 2014.

The revenues of the public buildings sub-segment decreased because there were no major projects comparable to those performed in 2012. The competitive situation in this market segment is particularly challenging: it is hard to win a contract without taking excessive risks but our current policy is to avoid such risks. Our largest projects of 2013 were the construction of the Translational Medicine Centre of the University of Tartu, Phase V in the project of St Paul's Church in Tartu and the construction of an academic building for the NCO School of the Estonian National Defence College. In 2014 public investments in this market sub-segment are not expected to increase significantly and, thus, competition will remain fierce.

In the industrial and warehouse facilities sub-segment we continued to earn most of the revenue from the construction of buildings procured by the agricultural sector but the volume of such work was smaller than in previous years because allocations from the EU structural funds that co-finance the projects decreased at the end of the budget period. As regards new work for the agricultural sector, in 2013 we won a contract of over 9 million euros for building a dairy farm complex at Väätsa. Shrinkage in the volume of work done for the agricultural sector was counterbalanced by non-agricultural private investments in new industrial and production buildings.

Our apartment building revenues resulted mostly from general contracting. Compared with the previous year, the contribution of the sub-segment grew because in May we won a large contract of around 10 million euros for the construction of an apartment building at Pirita tee 26 in Tallinn. The year was also successful in the sale of the last apartments and office premises in our own Tigutorn development project. Only 4 Tigutorn apartments are still for sale. Phase I in our Magasini 29 development project ([www.magasini.ee](http://www.magasini.ee)), which was launched in 2013, will be completed in 2014.

Revenue distribution within Buildings segment	2013	2012	2011	2010	2009
Commercial buildings*	45%	26%	12%	19%	66%
Industrial and warehouse facilities*	29%	35%	40%	36%	10%
Public buildings	21%	36%	45%	35%	18%
Apartment buildings	5%	3%	3%	10%	6%

\* 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 for the Infrastructure segment was road construction. We built the Aruvalla-Kose section of the Tallinn-Tartu motorway, construction package 4 of the Tartu western bypass and construction package 1 of the Tartu eastern ring road. All the projects were delivered, in the stage of substantial completion, in the last quarter of 2013.

In specialist engineering, the main projects were Sillamäe port and Kärdla guest harbour. Most of the work on Sillamäe port was done in 2012, which is why the contribution of the sub-segment decreased. The work at Sillamäe will continue in 2014 but on a much smaller scale. Kärdla guest harbour was completed in the last quarter of 2013.

Compared to recent years, the number of potential investments in ports and other more complex facilities has increased but it takes time before such projects reach the construction stage.

The market for the construction of utility networks (other engineering) is going to shrink. The year 2013 was the last one in the previous EU financial framework that provided most of the financing for investments of this sub-segment. A large share of public procurement tenders for relevant projects was announced in earlier years, while investments of the next EU budget period are still under preparation and should reach the tendering stage (in more significant volumes) in 2015 and 2016 only.

The contribution of environmental engineering grew thanks to investments made in the sector in previous years as well as successful bidding – during the year we secured a contract of 6.4 million euros for the reconstruction of the wastewater treatment plant of the town of Paide. However, we expect a decrease in environmental engineering work due to the same reasons that impact financing of the construction of utility networks from the EU budget.

Revenue distribution within Infrastructure segment	2013	2012	2011	2010	2009
Road construction and maintenance	54%	51%	47%	62%	49%
Specialist engineering (including hydraulic engineering)	8%	15%	10%	1%	12%
Other engineering	26%	27%	35%	28%	31%
Environmental engineering	12%	7%	8%	9%	8%

## A selection of major projects

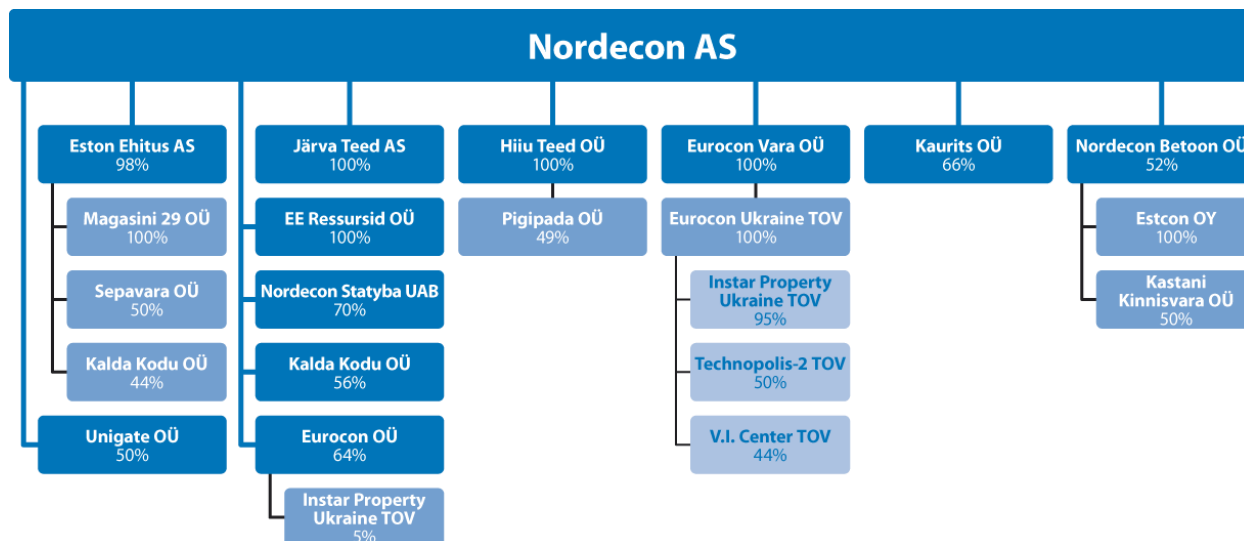
Major projects completed by Group entities in different sub-segments in 2013\*:

Project	Group entity	Customer	Operating segment
Design and construction of the Aruvalla-Kose section of main road E263	Nordecon AS and Ramboll Eesti AS	Estonian Road Administration	Road construction
Construction of construction package 4 of the Tartu western bypass	Nordecon AS	Estonian Road Administration	Road construction
Design and construction of construction package 1 of the Tartu eastern ring road	Nordecon AS and EA Reng AS	Tartu City Government	Road construction
Construction of a commercial building including guest apartments at Rotermanni 10	Nordecon AS	Rotermann City OÜ	Apartment buildings
Construction of an office building at Kentmanni 4/ Sakala 10	Nordecon AS	Selvaag Sakala OÜ	Commercial buildings
Construction of phase 4 of an extension to the Rocca al Mare shopping centre	Nordecon AS	Rocca al Mare Kaubanduskeskuse AS	Commercial buildings
Construction of rental premises for H&M and reconstruction of the main entrance at the Kristiine shopping centre	Nordecon AS	Kristiine Keskus OÜ	Commercial buildings
Construction of the Pärnu-Jaagupi wastewater treatment plant and water purification plant	Nordecon AS	Mako AS	Environmental engineering
Construction of the Haljala wastewater treatment plant	Nordecon AS	Haljala Soojus OÜ	Environmental engineering
Construction of the Kiviõli city public water supply and wastewater systems (package 1)	Nordecon AS	Järve Biopuhastus OÜ	Other engineering
Construction of berths 12, 13, 14, 15 for Sillmäe port	Nordecon AS	Sillamäe Sadam AS	Specialist engineering
Construction of Kärjala guest harbour	Nordecon AS	SA Kärjala Sadam	Specialist engineering
Construction of six family homes and outdoor facilities for care home Türi Kodu	AS Eston Ehitus	Hoolekandeteenused AS	Public buildings
Construction of a production building for AS Metaprint	AS Eston Ehitus	MP Majad OÜ	Industrial and warehouse facilities
Construction of a Comarket store in Pärnu	AS Eston Ehitus	Sparof OÜ	Commercial buildings
Construction of the KEVILI grain terminal	Nordecon Betoon OÜ	Agricultural cooperative KEVILI	Industrial and warehouse facilities
Construction of a robotic dairy farm for Kalutar OÜ	Nordecon Betoon OÜ	Kalutar OÜ	Industrial and warehouse facilities
Construction of the Ilmatsalu biogas plant	Nordecon Betoon OÜ	Tartu Biogaas OÜ	Industrial and warehouse facilities

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

## Group structure

The Group's structure at 31 December 2013, including interests in subsidiaries, associates and joint ventures\*



\* The chart does not include the subsidiaries OÜ Eesti Ehitus, OÜ Aspi, OÜ Linnaehitus, OÜ Mapri Projekt, Infra Ehitus OÜ, OÜ Paekalda 2, OÜ Paekalda 3, OÜ Paekalda 7 and OÜ Paekalda 9 that are currently dormant. The first four were established to protect former business names. Nor does the chart include investments in which the Group's interest is less than 20%. The interests presented in the chart have been rounded to full percentages.

### Significant changes in the Group's structure

#### Pigipada OÜ

In January, 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 road 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.

#### MP Ukraine TOV

Liquidation of the Group's Ukrainian entity, MP Ukraine TOV, was finalised in June. The entity, which conducted no business operations during its life cycle, belonged to Nordecon Betoon OÜ (a 95% stake) and Eurocon Ukraine TOV (a 5% stake).

#### Eurocon West TOV

Liquidation of the Group's Ukrainian entity, Eurocon West TOV, was finalised in December. The entity was wholly owned by Eurocon Ukraine TOV. Eurocon West TOV did not conduct any business operations as from 2010.

### Changes in the Group's structure after the reporting date

#### AS Eston Ehitus

In January 2014, Nordecon AS acquired from the non-controlling owners 228 shares, i.e. a further 2.3% stake, in AS Eston Ehitus and became the subsidiary's sole owner. The transaction was performed because the obligation to purchase the remainder of the shares, assumed by Nordecon AS under the agreement on the purchase of the majority stake in AS Eston Ehitus in 2007, fell due.

#### Sepavara OÜ

Substantive proceedings for the liquidation of the Group's Estonian associate Sepavara OÜ in which AS Eston Ehitus had a 50% stake were completed in April 2014. Sepavara OÜ did not conduct any business operations as from 2013.

## Financial review

### Financial performance

Nordecon group's gross profit for 2013 amounted to 11,309 thousand euros (2012: 8,217 thousand euros) and gross margin was 6.5% (2012: 5.2%).

The profit from long-term construction contracts is recorded over the contract term, based on the stage of completion of contract activity. During the life of a contract, estimates of the profitability of a contract may change. If this happens, the proportionate share of contract profit already recognised in the financial statements is adjusted to reflect the new estimate. During the year (particularly in the second half), a substantial share of our construction projects reached the stage of completion and their outcomes could be specified. Many of the projects were highly complex, involving construction risks whose potential costs were considered in making the profitability estimates for the financial statements but thanks to successful performance the costs were not incurred. In particular, revision of outcomes increased profit on projects for the construction of utility networks and environmental engineering. Although we won the projects by making the lowest bids in public tenders, the experience our people have gained over the years allowed us to benefit from strong improvements in productivity.

The rise in profitability was also supported by the external environment. Market growth in the previous year, relative stability in materials and subcontracting prices, and a slight decline in competitive pressure in certain segments created conditions that favoured a rise in the projects' average profit margin.

The Group's administrative expenses for 2013 totalled 4,922 thousand euros, reflecting a certain decrease compared with the previous year (2012: 5,385 thousand euros). The ratio of administrative expenses to revenue was 2.8% (2012: 3.4%). Our cost-control measures continue to yield strong results – we have been able to maintain administrative expenses below the target ceiling, i.e. 5% of revenue.

At the year-end, we wrote down real estate held for development (reported within inventories) by 330 thousand euros (2012: no expenses from write-down of real estate). In addition, non-recurring expenses from the write-down of goodwill amounted to 348 thousand euros (2012: no expenses from write-down of goodwill). As a result, we ended the year with an operating profit of 5,303 thousand euros (2012: 2,687 thousand euros) and an EBITDA (including impairment losses on goodwill) of 7,639 thousand euros (2012: 4,833 thousand euros).

The Group's net profit amounted to 4,639 thousand euros (2012: 1,926 thousand euros) of which profit attributable to owners of the parent, Nordecon AS, was 4,642 thousand euros (2012: 1,477 thousand euros).

### Cash flows

Operating activities for the year resulted in a net cash inflow of 5,426 thousand euros (2012: a net inflow of 8,941 thousand euros). In 2013, we completed a number of major projects that commenced in previous periods and for which we received substantial advances. Adjustment of subsequent billings for advances received and project-related retentions (release of the retentions has partially been postponed to 2014) led to a year over year decrease in net operating cash inflow. Amounts paid to employees increased as well (also proportionately), mostly on account of performance bonuses paid in the context of improved profitability.

Operating cash flows continued to be influenced by differences in settlement terms: the ones agreed with customers are long and in the case of public procurement generally extend from 45 to 56 days while subcontractors usually have to be paid within 21 to 45 days. Moreover, although amounts retained under subcontracts are smaller, they have to be released more quickly than those released by customers. We use factoring to counteract the impacts of cyclicity and overdraft facilities to raise working capital.

Investing activities resulted in a net cash outflow of 814 thousand euros (2012: a net outflow of 2,495 thousand euros). We continued to invest in property, plant and equipment although not as extensively as the year before. The volume of loans provided decreased and, in contrast to 2012, most of them were short-term loans to be repaid in 2014. During the year, we made contributions of 616 thousand euros to restore associates' negative equity and in the same transactions associates settled their loan interest commitments to the Group.

Financing activities resulted in a net cash outflow of 2,266 thousand euros (2012: a net outflow of 6,123 thousand euros). Loan receipts exceeded loan repayments by 470 thousand euros, whereas in 2012 loan repayments exceeded loan receipts by 2,970 thousand euros. Borrowing grew in connection with growth in business operations. Compared with 2012, we made fewer early loan settlements with funds raised from asset sales. Finance lease payments declined considerably because several leases concluded in 2008 expired in 2013.

At 31 December 2013, our cash and cash equivalents totalled 12,575 thousand euros (31 December 2012: 10,231 thousand euros). For management's comments on liquidity risks, see the chapter *Description of the main risks*.

## Investment

### Equity investments

In the period, we did not make any significant investments in non-Group entities. Less significant 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 the period, we 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. During the period, we reassessed the development potential of one investment property and reclassified it to properties held for development, which are reported within inventories (see note 15 to the financial statements).

### Investments in property, plant and equipment and intangible assets

In 2013, our investments in property, plant and equipment totalled 2,148 thousand euros (2012: 3,742 thousand euros). The investments were mainly aimed at replacing obsolete machinery and equipment, improving operating efficiency and acquiring the equipment required for meeting road maintenance requirements. To better understand the size of recent years' expenditure – the total figure for 2009-2011 was 1,854 thousand euros.

We did not make any major investments in intangible assets in the reporting period (note 17).

### Changes in the carrying amounts of relevant asset classes

Asset class (EUR '000)	2013	2012
Investments in equity-accounted investees (note 12)	364	3
Property, plant and equipment (carrying amount) (note 16)	179	1,414
Intangible assets (carrying amount) (note 17)	-363	-103

In 2014, investment will remain at the same level as in 2013 but, taking into account the relatively small scale of investments made in 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	2013	2012	2011	2010	2009
Revenue (EUR'000)	173,651	159,422	147,802	99,312	154,595
Revenue growth/decrease	8.9%	7.9%	48.8%	-35.8%	-37.5%
Net profit/loss (EUR'000)	4,639	1,926	-4,708	-12,738	-5,717
Profit/loss attributable to owners of the parent (EUR'000)	4,642	1,477	-5,304	-11,810	-2,923
Weighted average number of shares	30,756,728	30,756,728	30,756,728	30,756,728	30,756,728
Earnings per share (EUR)	0.15	0.05	-0.17	-0.38	-0.10
Administrative expenses to revenue	2.8%	3.4%	3.1%	4.9%	5.2%
EBITDA (EUR'000)*	7,639	4,833	-1,819	-5,375	275
EBITDA margin	4.4%	3.0%	-1.2%	-5.4%	0.2%
Gross margin	6.5%	5.2%	0.1%	-0.7%	5.6%
Operating margin	3.1%	1.7%	-3.1%	-9.0%	-5.2%
Operating margin excluding gains on sales of real estate	2.9%	1.4%	-3.5%	-9.4%	-5.4%
Net margin	2.7%	1.2%	-3.2%	-12.8%	-3.7%
Return on invested capital	9.5%	5.2%	-5.9%	-15.8%	-4.1%
Return on equity	14.2%	6.6%	-15.2%	-32.6%	-11.4%
Equity ratio	33.4%	27.1%	28.0%	35.1%	37.1%
Return on assets	4.3%	1.8%	-4.8%	-11.8%	-4.2%
Gearing	23.5%	33.7%	32.8%	42.3%	26.4%
Current ratio (note 5)	1.02	1.08	1.14	1.39	1.47

As at 31 December	2013	2012	2011	2010	2009
Order book (EUR'000)	64,286	127,259	134,043	85,607	97,827

\* For the purpose of calculating EBITDA, non-cash items include not only depreciation and amortisation but also impairment losses on goodwill (2013: 348 thousand euros; 2011: 425 thousand euros; 2010: 411 thousand euros; 2009: 3,912 thousand euros).

Revenue growth = (revenue for the reporting period/revenue for the previous period) – 1*100	Net margin = (net profit for the period/revenue)*100
Earnings per share (EPS) = net profit attributable to owners of the parent / weighted average number of shares outstanding	Return on invested capital = ((profit before tax + interest expense)/ the period's average (interest-bearing liabilities + equity))*100
Administrative expenses to revenue = (administrative expenses/ revenue)*100	Return on equity = (net profit for the period/ the period's average total equity)*100
EBITDA = operating profit + depreciation and amortisation + impairment losses on goodwill	Equity ratio = (total equity/ total liabilities and equity)*100
EBITDA margin = (EBITDA/revenue)*100	Return on assets = (net profit for the period/ the period's average total assets)*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
Operating margin excluding gains on sales of real estate = ((operating profit - gains on sale of non-current assets – gains on sale of real estate)/revenue) *100	

## Order book

At 31 December 2013, our order book stood at 64,286 thousand euros, a 51% decrease from the end of 2012.

The largest shrinkage in our order book (backlog of contracts signed but not yet performed) occurred in road construction (approx. 82%) where in 2013 we were involved in three major public procurement projects (construction of the Aruvalla-Kose section on the Tallinn-Tartu motorway, the Tartu western bypass and the Tartu eastern ring road). All of them were completed by the year-end. According to the new national road management plan, the structure of road construction investments is going to change. In particular, the proportion of large-scale projects will diminish. This means that companies engaged in road construction have to face a new reality – the average cost of road construction contracts will decrease, which will affect the competitive environment.

The order book for the construction of utility networks (other engineering sub-segment) has also shrunk significantly, because such work is typically procured with the support of the EU structural funds but in the last year of the EU 2007-2013 budget period relevant allocations were expectedly smaller.

On the other hand, the order books of the commercial buildings and industrial and warehouse facilities sub-segments have almost doubled, mostly thanks to growth in private sector investments.

EUR '000, As at 31 December	2013	2012	2011	2010	2009
Order book (EUR'000)	64,286	127,355*	134,043	85,607	97,827

\* Includes the outstanding balance of the Tivoli housing development project of 12,814 thousand euros. The contract was terminated early (before completion) in 2013.

At the reporting date, contracts secured by the Buildings segment and the Infrastructure segment accounted for 77% and 23% of the order book respectively. This is a radical change: compared with recent years the figures for the two segments have reversed (31 December 2012: 35% and 65% respectively). It is likely that building construction contracts will continue to dominate the order book in the next few years. In the current EU budget period (2014-2020) investments in infrastructure construction, which to date have mostly been made with the support of the EU structural funds, will not be as large as they were in 2007-2013. In particular, this applies to 2014 because the national investment plan has not yet been finalised. Hence, we expect the revenues of the Infrastructure segment to decline in 2014 (for further information, see the *Business risks* section of the chapter *Description of the main risks*).

We believe that in a situation where the market is expected to shrink, our priority cannot be increasing or maintaining the Group's revenue. Instead, the main focus should be on improving profitability. We do not consider the present decline in the Group's order book to be critical. Based on our historical experience, it is quite typical that a significant portion of budgeted operating volumes is achieved through new contracts signed during the year.

Between the reporting date (31 December 2013) and the date of release of this report, Group companies have secured additional construction contracts of approximately 42,241 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. A lot of attention is paid to working conditions, career opportunities and nature of the work.

### Staff and personnel expenses

In 2013, the Group (the parent and the subsidiaries) employed, on average, 757 people including 357 engineers and technical personnel (ETP). The number of staff did not change significantly compared with 2012.

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

Year	Engineers and technical personnel	Workers	Total average
2013	357	400	757
2012	367	397	764
2011	351	380	731
2010	362	412	774
2009	467	661	1,128

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 8 years and men and women account for 87% and 13% of the staff respectively. The indicators have not changed compared with 2012.

The Group's personnel expenses for 2013 including all taxes totalled 20,664 thousand euros, 23% up on 2012 when the figure was 16,803 thousand euros. Personnel expenses have increased due to growth in operating volumes and performance bonuses provided for and paid in the context of improved profitability. Selective increases in basic salaries have had less impact.

In 2013, 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 (2012: 141 thousand euros and 47 thousand euros respectively). Expenses on the provision for council members' performance bonuses, made based on the Group's performance indicators, amounted to 14 thousand euros and the provision for associated social security charges amounted 4 thousand euros (2012: 52 thousand euros and 17 thousand euros respectively).

The service fees of the members of the board of Nordecon AS amounted to 195 thousand euros and associated social security charges totalled 65 thousand euros (2012: 248 thousand euros and 82 thousand euros respectively, including the remuneration of the member of the board that was removed on 30 April 2012). Expenses on the provision for board members' performance bonuses, made based on the Group's performance indicators, amounted to 51 thousand euros and the provision for associated social security charges amounted 17 thousand euros (2012: 201 thousand euros and 66 thousand euros respectively, including the proportionate share of the member of the board that was removed on 30 April 2012).

### Labour productivity and labour cost efficiency

In recent years, the number of the Group's employees has been relatively stable and thus the rise in nominal labour productivity stems mostly from revenue growth. Nominal labour cost efficiency for the year was weakened mainly by growth in performance bonuses paid in the context of improved profitability. In comparative periods, the proportion of performance bonuses in the Group's personnel expenses was considerably smaller. Basic salaries have not been substantially increased. Payment of performance bonuses on the achievement of certain profit targets is an ordinary activity and, compared with comparative historical figures, the period's nominal labour cost efficiency was relatively high.



We measure the efficiency of our core business using the following productivity and efficiency indicators, which are based on the number of employees and personnel expenses paid:

	2013	2012	2011	2010	2009
Nominal labour productivity, (EUR'000)	229.4	208.7	202.3	128.3	137.1
Change against the comparative period	9.9%	3.2%	57.7%	-6.3%	-31.7%
Nominal labour cost efficiency, (EUR'000)	8.4	9.5	10.4	6.9	6.7
Change against the comparative period	-11.6%	-8.6%	51.6%	3.0%	-15.8%

Nominal labour productivity = revenue / average number of employees for the year

Nominal labour cost efficiency = revenue / personnel expenses for the year

### 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. 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. In line with the policy, numerous internal training courses on different subjects were organised in 2013.

We hire new specialists mostly from Tallinn University of Technology, Tallinn College of Engineering and the Estonian University of Life Sciences. In 2013, more than 50 of our ETP staff were studying at a higher education institution, around two thirds of them working for a master's degree and one of them for a doctor's degree. Altogether, 79% 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 2013, our companies provided industry training to more than 40 young people. We had 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 running events SEB Maijooks and Sügisjooks (May Run and Autumn Run) and our team attends Tartu Neliküritus – a series of four different events. In 2013, our people performed exceptionally well at the Floorin Maratonid series of marathons where they won several prizes as well as the whole series and Nordecon's volleyball team succeeded in defending their previous year's first place in construction companies' tournament Nurgakivi 2013. Several times a year, we organise kayaking or canoeing trips for smaller groups of enthusiasts as well as orienteering games and other events in picturesque places across Estonia. It is also a tradition to go to the A Le Coq football stadium to support the Estonian national team.

Our people appreciate joint visits to construction sites. Thus, in 2013 we arranged a tour of our sites in eastern Virumaa and took our people to southern Estonia to see the architecturally challenging reconstruction of St Paul's Church in Tartu.

We have a long-standing tradition of reviewing past performance and unveiling future plans at our annual Winter Seminar held in February. For years, the day-long event has taken place at Otepää and Pühajärve. Speakers always include a guest who talks on a subject of general interest. We have listened to Dr Urmas Varblane, professor of International Business at the University of Tartu, Jüri Raidla, senior partner at Law Office Raidla Lejins & Norcou, 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 and projects as well as social and community undertakings and initiatives. In 2013 a total of 244 thousand euros was allocated to charitable causes. The figure for the year before was 269 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.

We make substantial donations to education. For example, we support the Development Foundation of Tallinn University of Technology and every year we finance the Nordecon Heinrich Laul Scholarship that is awarded to a student of Tallinn University of Technology that is working for a doctor's degree in construction studies and a scholarship that is awarded to an exceptionally well-performing student working for a bachelor's degree in construction studies. For years, we have been among the main sponsors of Nõmme Private School Foundation.

Our companies are 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 the University of Tartu. In 2013, we signed cooperation agreements with the young decathlete Rauno Liitmäe, the skier Martti Relli and the sailing athlete Karl-Martin Rammo who is pursuing the Rio de Janeiro Olympics. The purpose of the collaboration is to help gifted young athletes achieve the best possible results and thereby inspire young people to go in for sports and set ambitious goals.

Under long-term partnership agreements, Nordecon supports Tallinn City Theatre, Tallinn University of Technology and various other educational, 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

<b>Name of security</b>	Nordecon AS ordinary share
<b>Issuer</b>	Nordecon AS
<b>ISIN code</b>	EE3100039496
<b>Ticker symbol</b>	NCN1T
<b>Nominal value</b>	No par value*
<b>Total number of securities issued</b>	30,756,728
<b>Number of listed securities</b>	30,756,728
<b>Listing date</b>	18 May 2006
<b>Market</b>	NASDAQ OMX Tallinn, Baltic Main List
<b>Industry</b>	Construction and engineering
<b>Indexes</b>	OMX_Baltic_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)	2013	2012	2011	2010	2009
Open	1.17	0.92	1.38	1.62	1.05
High	1.29	1.26	1.50	2.60	1.87
Average	1.13	1.02	1.16	1.53	1.07
Low	0.99	0.88	0.88	1.05	0.55
Last closing price	1.05	1.16	0.90	1.40	1.58
Traded volume (number of securities traded)	2,443,809	3,425,060	4,161,002	8,237,449	9,627,956
Turnover, in EUR millions	2.81	3.77	5.08	12.70	12.03
Listed volume (31 December), in thousands	30,757	30,757	30,757	30,757	30,757
Market capitalisation (31 December), in EUR millions	32.29	35.68	27.68	43.03	48.60

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

Ratio	2013	2012	2011	2010	2009
P/E	7.0	23.2	_*	_*	_*
P/B	1.0	1.3	1.1	1.3	1.1

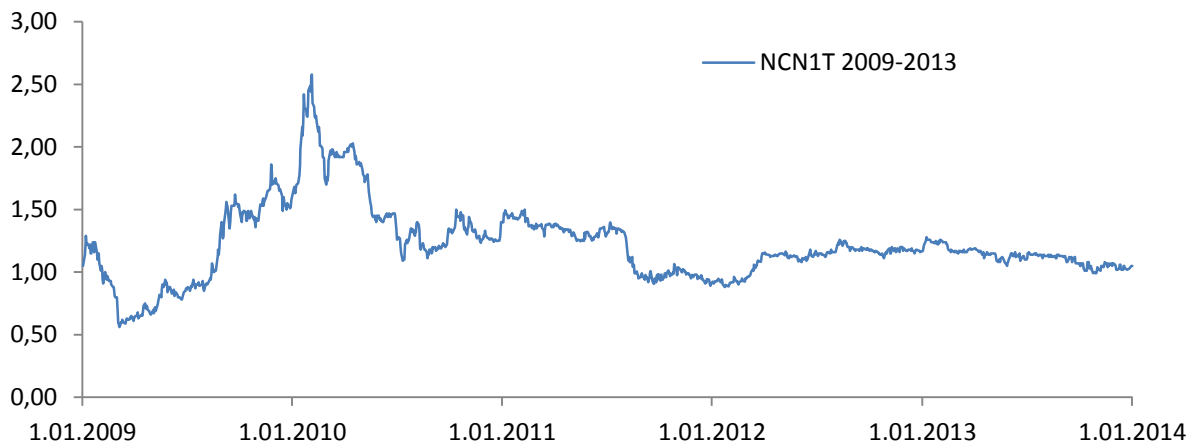
\* The P/E ratio is not calculated when earnings per share are negative

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

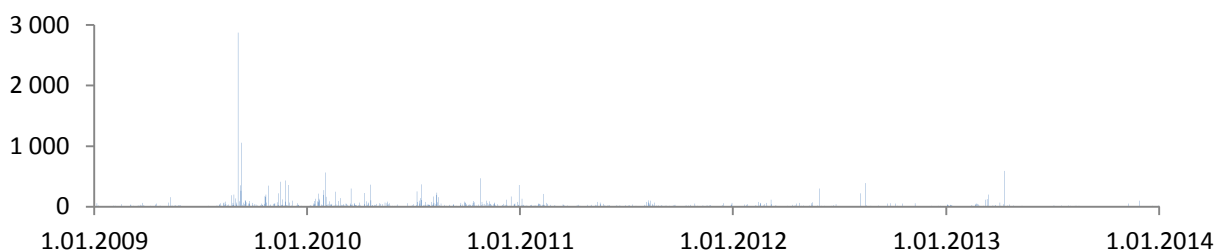
P/B = last closing price of the share / (equity attributable to owners of the parent / number of shares outstanding)

### Movements in the price and turnover of the Nordecon AS share in 2009-2013

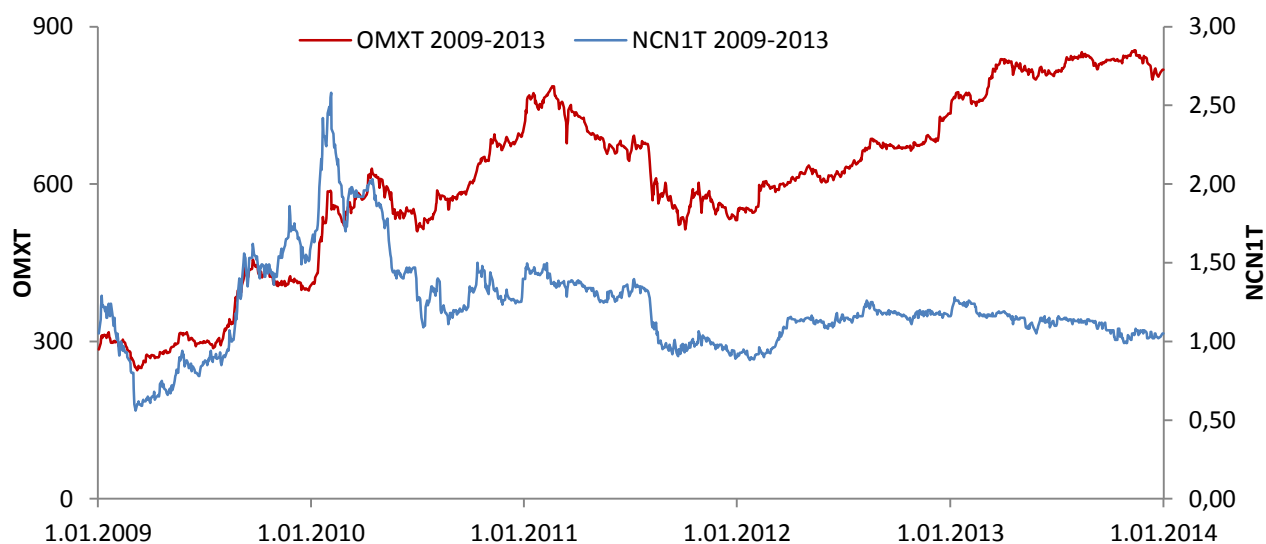
#### Movements in share price in euros



#### Daily turnover in thousands of euros



#### Movement of the share price compared with the OMX Tallinn index in 2009-2013



Index/equity	1 January 2009*	31 December 2013	+/-%
OMX Tallinn	274.83	817.72	197.5%
NCN1T	EUR 1.02	EUR 1.05	10.3%

\* Closing price on the NASDAQ OMX Tallinn Stock Exchange at 31 December 2008.

## Shareholder structure

### Largest shareholders in Nordecon AS at 31 December 2013

Shareholder	Number of shares	Ownership interest (%)
AS Nordic Contractors	16,507,464	53.67
Luksusjaht AS	2,939,830	9.56
ING Luxembourg S.A.	2,007,949	6.53
Skandinaviska Enskilda Banken S.A.	677,308	2.20
SEB Pank AS clients	650,000	2.11
State Street Bank and Trust Omnibus Account A Fund	597,464	1.94
ASM Investments OÜ	519,600	1.69
Ain Tromp	478,960	1.56
SEB Elu- ja pensionikindlustus AS	262,700	0.85
Genadi Bulatov	250,600	0.81

### Shareholder structure of Nordecon AS by ownership interest at 31 December 2013

	Number of shareholders	Ownership interest (%)
Shareholders with interest exceeding 5%	3	69.76
Shareholders with interest between 1% and 5%	5	9.50
Shareholders with interest below 1%	1,874	20.74
<b>Total</b>	<b>1,882</b>	<b>100</b>

### Shareholder structure by business line and legal form at 31 December 2013:

Business line and legal form	Number of shares	Ownership interest (%)
Companies (legal persons)	21,485,799	69.86
Financial institutions (banks, investment funds)	5,019,963	16.32
Individuals	3,708,066	12.06
Insurance companies	542,900	1.76
<b>Total</b>	<b>30,756,728</b>	<b>100</b>

### Shareholder structure by country of shareholder's domicile at 31 December 2013:

Shareholder's domicile	Number of shares	Ownership interest (%)
Estonia	25,915,231	84.26
Luxembourg	2,732,567	8.88
Sweden	789,015	2.57
USA	436,103	1.42
Lithuania	387,742	1.26
Great Britain	208,827	0.68
Finland	135,576	0.44
Latvia	37,000	0.12
Other countries	114,667	0.37
<b>Total</b>	<b>30,756,728</b>	<b>100</b>

### Shares controlled by members of the council of Nordecon AS at 31 December 2013

Council member		Number of shares	Ownership interest (%)
Toomas Luman (AS Nordic Contractors, OÜ Luman ja Pojad)*	Chairman of the Council	16,579,144	53.90
Alar Kroodo (ASM Investments OÜ)*	Member of the Council	519,600	1.69
Ain Tromp	Member of the Council	478,960	1.56
Andri Hõbemägi	Member of the Council	50,000	0.16
Tiina Möis	Member of the Council	0	0.00
Meelis Milder	Member of the Council	0	0.00
<b>Total</b>		<b>17,627,704</b>	<b>57.31</b>

\* Companies controlled by the individual

On 19 June 2013 OÜ Luman ja Pojad, a company controlled by the chairman of the council, acquired an additional 5,000 shares in Nordecon AS.

On 28 November 2013, member of the council Ain Tromp sold 100,000 shares in Nordecon AS.

### Shares controlled by members of the board of Nordecon AS at 31 December 2013

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

\* Company 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 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%
2013	0	30,757	0	0%

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

According to the proposal of the board, in 2014 the company will distribute for 2013 dividends of 0.03 euros per share (923 thousand euros).

#### Dividend distributions are determined primarily by reference to:

- the dividend expectations of the ultimate controlling party AS Nordic Contractors;
- the general 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 through its board and council for 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 18 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 AS Nordic Contractors, chairman of the board), Eesti Energia AS (council), Estonian Chamber of Commerce and Industry (chairman of the board), Nõmme Private Education Foundation, Estonian Private Education Foundation, Playground Fund Foundation, Foundation for Promoting National Defence, Development Foundation of Tallinn University of Technology, Board of Governors of Tallinn University of Technology (chairman), Cultural Foundation of the President of the Republic, Alumni Association of Tallinn University of Technology, Estonian Reserve Officers' Association

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

**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 executive manager of football club FC Flora. In 2002 he became CFO of AS Eesti Ehitus (later renamed Nordecon AS). During his term of office the company's shares were listed on the Tallinn Stock Exchange. Currently he is chief analyst with AS Nordic Contractors, the majority shareholder in Nordecon AS. His community activities are aimed at the development of Estonian football and regional education.

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

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

**Tiina Mõis** – independent member (as per the 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 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), Estonian Chamber of Commerce and Industry, Alumni Association of Tallinn University of Technology

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

**Meelis Milder** – independent member (as per the 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 in 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 shareholders/independent member (as per the 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 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.

### **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)

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

### **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 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 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 2013, competition for public sector contracts intensified visibly. Public sector investments decreased and the prospects of maintaining operating volumes in 2014 are not good. There is strong competitive pressure on builders' bid prices although input prices continue to climb. Competition is particularly fierce in the building construction segment. We acknowledge the risks inherent in the execution of contracts concluded in an environment of stiff competition. Securing a long-term construction contract at an unreasonably low price in a situation where input prices cannot be lowered noticeably and competition is fierce involves high risk, because the contract may quickly start generating a loss. Thus, in price-setting we currently prioritize profitability over increasing or maintaining the revenue figure.

In the next periods, demand for construction services will be driven by public sector investments. In recent years, a major share of investments was made with the assistance of allocations from the EU structural funds that were determined, both in terms of size and timing, by the EU financial framework 2007-2013. In general, the amounts that will be allocated to Estonia during the next EU financial framework (2014-2020) are known (5.9 billion euros of which 4.3 billion euros will be distributed via the EU structural and investment funds) but the volume and schedule of investments involving construction work have not yet been finalised. According to information released to date, the overall volume of construction-related investments is going to decline compared with the previous budget period and 2014 may become a so-called 'gap' year between the two budget periods, where most efforts are directed at preparatory administrative activities required for enabling the investments.

In light of the above, it is likely that in 2014 our business volumes will shrink, particularly in the Infrastructure segment where the proportion of public sector investments has been the largest. Our action plan foresees redirecting our resources (including some of the labour of the Infrastructure segment) to increasing the proportion of contracts secured from the private sector. According to our business model, Nordecon operates in all segments of the construction market. Therefore, we are somewhat better positioned than those companies that operate in only one specific (particularly some infrastructure) segment.

Our primary goal is to maintain profitability even when construction volumes shrink. In many functions (e.g. support services), our costs have increased considerably more slowly than the volumes of our operating activities. Essentially, our costs are at the levels where they were taken by various cost cuts after the last major downturn in the construction market, which was in 2009-2010. This means that if construction volumes change, we will not have to undertake any extensive restructuring.

The Group's business is also influenced by the fact that construction operations are seasonal. The impacts of seasonal fluctuations are the strongest in the Infrastructure segment where a lot of work is done outdoors (road and port construction, earthwork, etc). To disperse the risk, we secure road maintenance contracts that generate year-round business. Our business strategy is to counteract seasonal fluctuations in infrastructure operations with building construction that is less exposed to seasonality. Thus, we endeavour to keep the two segments in balance (see also the chapter *Performance by business line*). In addition, where possible, our companies implement appropriate technical solutions that allow working efficiently even in changeable weather conditions.

### Operational risks

To manage their daily construction risks, Group companies purchase contractors' all risks insurance. Depending on the nature of the project and the requests of the customer, both general frame agreements and special, project-specific contracts are used. In addition, as a rule, subcontractors are required to secure performance of their obligations with a bank guarantee provided to a Group company or the Group retains part of the amount payable until the completion of the contract. To remedy builder-caused deficiencies, which may be detected during the warranty period, Group companies create warranty provisions based on their historical experience. At 31 December 2013, the Group's warranty provisions (including current and non-current ones) totalled 1,546 thousand euros. At the end of 2012, the corresponding figure was 1,407 thousand euros.

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

## Financial risks

### Credit risk

In the reporting period, the Group did not have 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 continued to be 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 2013, impairment losses on receivables totalled 305 thousand euros (2012: 239 thousand euros).

At the beginning of the year, the Group's statement of financial position included a trade receivable of 2,398 thousand euros due from the customer of the exhibition building of the Estonian Maritime Museum. The decision on whether the Group's claim against the debtor had merit was made the Arbitration Court of the Estonian Chamber of Commerce and Industry in February 2014. According to the decision, the customer had to pay the Group, together with late payment interest, 1,538 thousand euros, which meant partial realisation of credit risk. To provide a faithful representation of the economic substance of the court's decision, the Group did not write the receivable down but reduced revenue by the part of the receivable that could not be recovered. Taking into account the effect of accrued late payment interest, the decision reduced the Group's revenue and gross profit by 648 thousand euros.

### 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) and increasingly shorter settlement terms negotiated by subcontractors (mostly 21 to 45 days). The Group counteracts the differences in settlement terms by using factoring where possible.

At the reporting date, the Group's current assets exceeded its current liabilities 1.02-fold (31 December 2012: 1.08-fold). The figure has dropped compared with the previous year due to the reclassification of loans provided to the Group's Ukrainian associates to non-current assets. The ratio also continues to be influenced by the fact that banks do not refinance interest-bearing liabilities for a period exceeding twelve months.

The political situation in Ukraine has aggravated and we believe that realisation of our Ukrainian investment properties will take more time. Accordingly, at the year-end we reclassified loan receivables from our Ukrainian associates of 10,267 thousand euros to non-current assets. On the other hand, we had our largest Ukrainian development project appraised as at the year-end and determined that there was no need to write the loan receivables down.

We continued to implement our 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 2013 the banks supported the Group's liquidity position by refinancing long-term loans and granting repayment holidays for loan principal. In addition, the banks provided the Group with additional short-term overdraft facilities of approximately 7.5 million euros for raising working capital. The Group repaid the short-term loans received under the financing program by the year-end, creating preconditions for gaining access to relevant limits again in 2014.

At the reporting date, bank loans accounted for a significant proportion of our current liabilities. In accordance with IFRS EU, loan commitments have to be classified into current and non-current liabilities based on the contract terms effective at the reporting date. Although, based on our agreements with the banks, it is likely that our overdraft liabilities and other short-term loans will be refinanced for another twelve months, relevant decisions will be made in 2014 when the loans fall due. Thus, at the year-end, the liabilities mostly constituted current items. According to our assessment, we can refinance short-term loans of 18,203 thousand euros of which repayment of 15,003 thousand euros will be deferred to 2015. This will improve the Group's liquidity position and associated ratios significantly (for further information, see the *Liquidity risk* section of note 5 *Financial risk management*).

At the reporting date, the Group's cash and cash equivalents totalled 12,575 thousand euros (31 December 2012: 10,231 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 2013, the Group's interest-bearing loans and borrowings totalled 27,178 thousand euros, a decrease of 3,677 thousand euros year over year. Interest expense for 2013 amounted to 1,055 thousand euros, 42 thousand euros down from a year ago.

The main source of the Group's interest rate risk is the possibility of a rapid upsurge in the base rate of floating interest rates (EURIBOR, EONIA or the creditor's own base rate). In light of the Group's relatively heavy loan burden this would cause a significant increase in interest expense, which would have an adverse impact on profit. We mitigate the risk by pursuing a policy of entering, where possible, into fixed-rate contracts when the market interest rates are low. However, as regards the loan products offered by banks, observance of the policy has proved difficult and most new contracts have a floating interest rate. The Group does not use derivative financial instruments to hedge its interest rate risk.

## Currency risk

As a rule, the prices of construction contracts and subcontracts are fixed in the currency of the host country, i.e. in euros (EUR) and in Ukrainian hryvnas (UAH). The Group's net foreign exchange loss for the period was 104 thousand euros (2012: a net foreign exchange loss of 95 thousand euros).

The hryvna 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 US dollar- or euro-based loan and lease liabilities. In the reporting period, the exchange rate of the hryvna against the US dollar and the euro remained relatively stable, weakening by around 5%. In 2013, the Group's foreign exchange losses from its Ukrainian operations totalled 137 thousand euros (2012: exchange losses totalled 69 thousand euros).

The change in Ukraine's political leadership at the beginning of 2014, economic difficulties and dispute with Russia over the autonomous region of Crimea have caused the exchange rate of the hryvna to tumble. By the date of release of this report, the hryvna has weakened against the euro by around 35%. For the Group's Ukrainian subsidiaries, this means additional exchange losses on the translation of loan commitments denominated in euros into the local currency. The reciprocal receivables and payables of the Group's Ukrainian and non-Ukrainian entities (items connected with the construction business) do not give rise to any material exchange losses. Nor do the loans provided to the Group's Ukrainian associates in euros give rise to exchange losses that ought to be recognised in the Group's financial statements.

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

## Outlooks of the Group's geographical markets

### Estonia

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

- In 2014 public investment will decrease in connection with the change of the EU budget periods because implementation of measures requires time. Although during the 2014-2020 financial framework allocations to Estonia will increase to 5.9 billion euros (2007-2013: 4.6 billion euros), support payments from the structural funds that influence the construction market will not increase. Instead, compared with the previous budget period, there will be an increase in allocations to projects not related to tangible assets.

The investments made by the largest public sector customers, Riigi Kinnisvara AS (a state-owned real estate company) and the National Road Administration, which will reach the stage of conclusion of a construction contract in 2014 will either not increase significantly or may even decrease. As a result, the Estonian construction market (particularly those segments that are related to infrastructure construction) will shrink. The situation may be somewhat alleviated by private customers' increasing investment in building construction.

- The construction market 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, but the process will be slower than expected. Based on the past three years' experience it is likely that stiff competition and insufficient demand will induce some general contractors to go slowly out of business or shrink in size rather than merge with another or exit the market. However, it is also 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 tendering terms and secure the required funding.
- Competition will increase in all segments of the construction market. We see a rise in the average number of bidders for a contract 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, there are currently no massive decreases in input prices and companies that are banking on this in the bidding phase may run into difficulty. Construction prices and thus also profit margins are under strong competitive pressure.
- In new housing development, the success of a project depends on the developer's ability to control the input prices included in the business plan and thus to set an affordable sales price. Although the overall situation is improving steadily, the offering of new residential real estate cannot be increased dramatically because the prices of new apartments are relatively high compared with the standard of living and the banks' lending terms remain strict. Similarly to the previous year, successful projects include those that create or fill a niche.
- The contracts signed with public sector customers continue to impose tough conditions on construction companies: extensive obligations, strict sanctions, various financial guarantees, 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 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. Still, compared to two or three years ago, the situation has improved and in some respects procurement terms have become more reasonable for construction companies.
- The prices of construction inputs will remain relatively stable. In the short term, weakening demand may lower local subcontracting prices. However, taking into account the subcontractors' financial and human resources, the decline cannot be substantial or long-lasting. In some areas, price fluctuations are unpredictable and, thus, notably greater and hard or even impossible to influence (oil and metal products, certain materials and equipment).
- Shortage of skilled labour (including project and site managers) will persist. This will undermine not so much the companies' performance capabilities as the quality of carrying out the construction process, i.e. delivering the service. Shrinkage in construction volumes in Estonia may increase labour supply but not substantially. Labour migration to the Nordic countries will remain steady and although those markets (particularly Finland) may also shrink, the number of job seekers that will return will not increase considerably. Accordingly, the basic wage of construction-sector employees will not decrease. Instead, the rise in the cost of living is creating pressure for a wage 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 the Estonian market in 2014 it will probably see shrinkage in public sector demand. Accordingly, it is unlikely that we will enter to the Latvian construction market permanently in 2014.

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.

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

## Ukraine

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. The political situation in Ukraine is worrying and undoubtedly affects adoption of business decisions by construction market participants. Regardless of this, we will continue our business in Ukraine in 2014. Compared with the previous year, our current Ukrainian order book is somewhat larger. We continue to monitor the situation in the Ukrainian construction market closely and will restructure our operations as appropriate. We also continue to seek opportunities for exiting our two conserved real estate projects or signing a construction contract with a potential new owner.

## Finland

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

## 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 2013 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 2013, Nordecon AS observed the CGR except as 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 allocation of profits, amend the articles of association, appoint the auditors, and elect members of the company's council. A shareholder may attend the general meeting and vote in person or through a proxy carrying relevant written authorisation. General meetings are held on business days in a place that should allow the largest possible number of shareholders to 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 notice of the general meeting. The company replies to all relevant questions before the general meeting on its website or during the meeting when the relevant agenda item is being discussed. In 2013, 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 2013, the company was represented at the general meeting by chairman of the board Jaano Vink who attended the meeting and was available to the shareholders during the meeting.

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 2013, 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 24 May 2013. 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](http://www.nordecon.com).

The company discloses the reasons for the general meeting and provides explanations of those agenda items that involve a significant change (e.g. amendment of articles of association, extraordinary transactions). The company enables shareholders to review information about the questions shareholders have asked 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 2013, 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 the board. In the period, 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 2013, the general meeting was attended by chairman of the board Jaano Vink and members of the board Avo Ambur and Erkki Suurorg, 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 2013, 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 Group observe effective laws and regulations.



In 2013, 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 2013, 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 board may be a member of the council of another Group entity. The chairman of the council signs a service contract with a member of the board.

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

In 2013, the board had the following members:

Name	Position/area of responsibility	Beginning of term of office	Expiry of term of office
Jaano Vink	<b>Chairman of the Board</b> General management of Nordecon AS and the Group	5 August 2002	31 July 2014
Avo Ambur	<b>Member of the Board</b> Management of the sales and pre-construction operations of Nordecon AS	1 January 2011	31 December 2016
Erkki Suurorg	<b>Member of the Board</b> Management of the construction operations of Nordecon AS	1 January 2011	31 December 2016

In December 2013 the council decided to appoint Avo Ambur and Erkki Suurorg as members of the board of Nordecon AS for another three-year term of office commencing on 1 January 2014. The areas of responsibility of members of the board did not change.

#### 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 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 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 targets for the year are not achieved or performance pay was assigned based on data that proved (e.g. after the audit) materially inaccurate.

- Benefits for observing the prohibition on competition after the expiry of the service 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 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.

The service fees of the members of the board of Nordecon AS amounted to 195 thousand euros and associated social security charges totalled 65 thousand euros (2012: 248 thousand euros and 82 thousand euros respectively, including the remuneration of the member of the board that was removed on 30 April 2012). Expenses on the provision for board members' performance bonuses, made based on the Group's performance indicators, amounted to 51 thousand euros and the provision for associated social security charges amounted 17 thousand euros (2012: 201 thousand euros and 66 thousand euros respectively, including the proportionate share of the member of the board that was removed on 30 April 2012).

In 2013, 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 highly 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 council. In the reporting period, members of the board did not request the council's permission for engaging in competing activities.

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

In the reporting period, members of the board, their family members and persons 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 2013, 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 assesses the company's financial position and risk management systems as well as whether the board's activities are lawful and whether essential information concerning the company is appropriately disclosed to the council and the public.

The council has set up an audit committee that is responsible for advising the council in matters 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 that may affect the company's development and management. The chairman of the council conveys the information to the council and, where necessary, calls an extraordinary meeting of the council.

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

In 2013, 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. Council members are elected by the general meeting for a term of five years. Members of the council elect a chairman from among themselves. In 2013, 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	25 May 2013	24 May 2018
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.

According to the resolution of the general meeting of 28 May 2012, 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 the 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 the 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 2013, 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 (2012: 141 thousand euros and 47 thousand euros respectively). Expenses on the provision for council members' performance bonuses, made based on the Group's performance indicators, amounted to 14 thousand euros and the provision for associated social security charges amounted 4 thousand euros (2012: 52 thousand euros and 17 thousand euros respectively).

In 2013, 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 council members, 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 2013, there were no conflicts of interest in council members' work or relations with the company.

In 2013, 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 2013, 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 2013, 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](http://www.nordecon.com). In those channels, information is released simultaneously in Estonian and in English.

The company discloses information in accordance with the rules of the NASDAQ OMX Tallinn Stock Exchange and the provisions of the Estonian Securities Act. In 2013, the company's threshold for notifying of significant construction contracts was 3.2 million euros. In 2013, Nordecon AS made 26 stock exchange announcements that were released concurrently via the information system of the NASDAQ OMX Tallinn Stock Exchange and the company's website.

Nordecon AS has disclosed its financial calendar, which outlines the dates on which or the weeks in which information will be released during the year (including annual and interim reports and the notice of the annual general meeting), on its website and via a separate announcement in the information system of the stock exchange. In addition, the company has made available on its website 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 2013, 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 signed by the council.

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

The company has disclosed in the financial statements financial information on companies that have not been consolidated but in which the company has a significant interest (note 12) and transactions with shareholders (note 37).

In 2013, 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 provided and the fees paid to the auditor.

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

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

In the reporting period, the auditor's services comprised the agreed audit services as well as tax advice, translation services and other work involving agreed-upon procedures. Altogether, the fees paid by Nordecon AS to the auditor for services provided in 2013 totalled 44 thousand euros.

The auditor provided the audit committee formed by the council with a written overview of the company's audit in 2013, the auditor's findings and other significant matters that were discussed with the board.

In 2013, 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 2014
Avo Ambur	Member of the Board		22 April 2014
Erkki Suurorg	Member of the Board		22 April 2014

## Consolidated financial statements

### Consolidated statement of financial position

EUR '000

As at 31 December

	Note	2013	2012
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	8	12,575	10,231
Trade and other receivables	9	28,101	42,896
Prepayments	10	1,923	1,840
Inventories	11	23,785	26,243
<b>Total current assets</b>		<b>66,384</b>	<b>81,210</b>
<b>Non-current assets</b>			
Investments in equity-accounted investees	12	566	202
Other investments	14	26	26
Trade and other receivables	9	10,645	1,554
Investment property	15	3,549	4,930
Property, plant and equipment	16	9,030	8,851
Intangible assets	17	14,494	14,857
<b>Total non-current assets</b>		<b>38,310</b>	<b>30,420</b>
<b>TOTAL ASSETS</b>		<b>104,694</b>	<b>111,630</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Loans and borrowings	18	23,875	27,185
Trade payables	20	26,372	31,968
Other payables	21	7,982	5,014
Deferred income	22	6,102	11,404
Provisions	23	913	521
<b>Total current liabilities</b>		<b>65,244</b>	<b>76,092</b>
<b>Non-current liabilities</b>			
Loans and borrowings	18	3,303	3,671
Trade payables	20	156	259
Other payables	21	96	96
Provisions	23	969	1,210
<b>Total non-current liabilities</b>		<b>4,524</b>	<b>5,236</b>
<b>TOTAL LIABILITIES</b>		<b>69,768</b>	<b>81,328</b>
<b>EQUITY</b>			
Share capital	24	19,657	19,657
Statutory capital reserve	24	2,554	2,554
Translation reserve	24	-298	-404
Retained earnings		10,681	6,039
<b>Total equity attributable to owners of the parent</b>		<b>32,594</b>	<b>27,846</b>
<b>Non-controlling interests</b>		<b>2,332</b>	<b>2,456</b>
<b>TOTAL EQUITY</b>		<b>34,926</b>	<b>30,302</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>104,694</b>	<b>111,630</b>

## Consolidated statement of comprehensive income

EUR '000	Note	2013	2012
Revenue	26	173,651	159,422
Cost of sales	29	-162,342	-151,205
<b>Gross profit</b>		<b>11,309</b>	<b>8,217</b>
Marketing and distribution expenses		-452	-389
Administrative expenses	30	-4,922	-5,385
Other operating income	31	464	810
Other operating expenses	31	-1,096	-566
<b>Operating profit</b>		<b>5,303</b>	<b>2,687</b>
Finance income	32	668	622
Finance costs	32	-1,027	-1,248
<b>Net finance costs</b>		<b>-359</b>	<b>-626</b>
Share of loss of equity-accounted investees	12	-170	-79
<b>Profit before income tax</b>		<b>4,774</b>	<b>1,982</b>
Income tax expense	33	-135	-56
<b>Profit for the year</b>		<b>4,639</b>	<b>1,926</b>
<b>Other comprehensive income:</b>			
<b>Items that may be reclassified subsequently to profit or loss</b>			
Exchange differences on translating foreign operations		106	59
<b>Total other comprehensive income</b>		<b>106</b>	<b>59</b>
<b>TOTAL COMPREHENSIVE INCOME</b>		<b>4,745</b>	<b>1,985</b>
<b>Profit attributable to:</b>			
- Owners of the parent	25	4,642	1,477
- Non-controlling interests		-3	449
<b>Profit for the year</b>		<b>4,639</b>	<b>1,926</b>
<b>Total comprehensive income attributable to:</b>			
- Owners of the parent		4,748	1,536
- Non-controlling interests		-3	449
<b>Total comprehensive income for the year</b>		<b>4,745</b>	<b>1,985</b>
<b>Earnings per share attributable to owners of the parent:</b>			
Basic earnings per share (EUR)	25	0.15	0.05
Diluted earnings per share (EUR)	25	0.15	0.05



## Consolidated statement of cash flows

EUR '000	Note	2013	2012
<b>Cash flows from operating activities</b>			
Cash receipts from customers <sup>1</sup>		204,768	193,524
Cash paid to suppliers <sup>2</sup>		-175,465	-161,447
VAT paid		-5,131	-6,192
Cash paid to and for employees		-18,647	-16,888
Income tax paid		-99	-56
<b>Net cash from operating activities</b>		<b>5,426</b>	<b>8,941</b>
<b>Cash flows from investing activities</b>			
Paid on acquisition of property, plant and equipment		-458	-1,792
Proceeds from sale of property, plant and equipment		317	379
Investments made in associates	12	-616	0
Loans provided		-922	-1,499
Repayment of loans provided	37	245	399
Interest received	12, 37	616	18
Dividends received		4	0
<b>Net cash used in investing activities</b>		<b>-814</b>	<b>-2,495</b>
<b>Cash flows from financing activities</b>			
Proceeds from loans received		3,440	3,180
Repayment of loans received		-2,970	-6,150
Dividends paid	33	-121	-80
Finance lease principal paid	19	-1,670	-1,967
Interest paid		-945	-1,106
<b>Net cash used in financing activities</b>		<b>-2,266</b>	<b>-6,123</b>
<b>Net cash inflow</b>		<b>2,346</b>	<b>323</b>
<b>Cash and cash equivalents at beginning of year</b>		<b>10,231</b>	<b>9,908</b>
Effect of exchange rate changes		-2	0
Increase in cash and cash equivalents		2,346	323
<b>Cash and cash equivalents at end of year</b>		<b>12,575</b>	<b>10,231</b>

<sup>1</sup> Line item *Cash receipts from customers* includes VAT paid by customers.

<sup>2</sup> Line item *Cash paid to suppliers* includes VAT paid.

## Consolidated statement of changes in equity

EUR '000	Equity attributable to owners of the parent					Non-controlling interests	Total
	Share capital	Statutory capital reserve	Translation reserve	Retained earnings	Total		
<b>Balance at</b>							
<b>31 December 2011</b>	<b>19,657</b>	<b>2,554</b>	<b>-463</b>	<b>4,563</b>	<b>26,311</b>	<b>2,086</b>	<b>28,397</b>
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
<b>Balance at</b>							
<b>31 December 2012</b>	<b>19,657</b>	<b>2,554</b>	<b>-404</b>	<b>6,039</b>	<b>27,846</b>	<b>2,456</b>	<b>30,302</b>
Profit for the year	0	0	0	4,642	4,642	-3	4,639
Other comprehensive income	0	0	106	0	106	0	106
Dividend distribution	0	0	0	0	0	-121	-121
<b>Balance at</b>							
<b>31 December 2013</b>	<b>19,657</b>	<b>2,554</b>	<b>-298</b>	<b>10,681</b>	<b>32,594</b>	<b>2,332</b>	<b>34,926</b>

## 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 2013 comprise the company and its subsidiaries (together referred to as 'the Group') and the Group's interests in associates and joint ventures. The Group's primary activities are building and infrastructure construction and, within strategic limits, real estate development. In addition to Estonia, the Group operates through its subsidiaries and associates in Lithuania, Ukraine and Finland.

## NOTE 2. Statement of compliance and basis of preparation

### Statement of compliance

The consolidated financial statements of Nordecon AS group for the year ended 31 December 2013 have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS EU). The parent company's primary financial statements are presented in note 39 to the consolidated financial statements because this is required by the Estonian Accounting Act.

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

Under the Estonian Commercial Code, 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 2014.

### 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 34.

### Functional and presentation currency

The functional currency of all Group entities is the currency of the primary economic environment in which they operate: in Estonia and Finland - the euro (EUR), in Lithuania - the Lithuanian litas (LTL), and 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.

## Use of significant accounting estimates and judgements

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

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

In 2013, the Group conducted most of its business in Estonia. The Estonian GDP grew by 0.8% (2012: 3.9%). In contrast to 2012, when both the real estate and the construction markets were among the main GDP growth drivers, 2013 saw a marked slowdown in the rise in construction volumes and a decrease in their contribution to GDP. The construction production index rose by 0.7% (2012: 16.6%) and the Estonian construction companies' total output was 2.2 billion euros (2012: 2.08 billion euros).

The Group foresaw the deceleration in volume growth already in 2012 as it was inevitable that in the last year of the EU 2007-2013 financial framework public sector spending, which had been the main growth driver in the construction market, would shrink. The real estate market sustained more rapid growth: the number of real estate transactions performed in the Estonian market rose by 15% (2012: 12%) and the total value of transactions grew by 17% (2012: 13%) to 2.07 billion euros (2012: 1.77 billion euros). The real estate market was active in the segment of completed residential premises but interest in properties with no buildings and, thus, relevant transaction activity continued to be low. It is anticipated that in 2014 the Estonian construction market will shrink. Information released to date indicates that even though public sector investments will also be made during the EU 2014-2020 budget period, allocations to areas that require direct construction work will decrease compared with the previous financial framework. Moreover, in 2014 some time will be spent on agreeing the new national investment programmes and the scopes of the measures involved.

Thus, 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 27) (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 by different levels of management that analyse any deviations from the budget and revise the estimate as and when necessary.

The effect of a change in contract revenue and/or estimated contract costs is accounted for as a change in 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 estimate is changed and in subsequent periods.

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

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

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

The Group is engaged in real estate development in Estonia and apartments that are built for sale are classified as inventories until that sale occurs. The Group estimates the carrying amounts of unsold apartments classified as inventories based on to the actual sales prices of similar apartments sold shortly before or after the reporting date.

On estimating the values of properties (plots of land) acquired for development, the Group relies on valuation reports issued by independent certified real estate appraisers and, where necessary, the calculations of its own real estate specialists. Most of the properties have a detailed design plan or proceedings for adoption of a detailed design plan have been initiated. The properties are located in different regions across Estonia (Tallinn, Tartu, Pärnu and Narva). Although in 2013 the number and total value of transactions in the real estate market increased, the reports issued by certified real estate appraisers state that it is still not possible to measure the sales prices (market values) of all properties (plots) without buildings that are in the initial stage of development sufficiently reliably using the sales comparison method. Most of the Group's properties fall into that category.

Accordingly, in addition to the sales comparison method applied by real estate appraisers, the Group measured the values of properties acquired 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 from the sale of the development 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 the valuation results, the cost of one property acquired for development was written down. The sensitivity analysis of the valuations is presented in the notes to these financial statements.

#### **Classification (J) and measurement (E) of investment properties (notes 5 and 15)**

Both on initial recognition and subsequent reclassification, properties (items of real estate) are classified to inventories, investment properties and items of property, plant and equipment on the basis of management's intentions regarding their further use. Investment properties comprise properties held to earn rentals or for capital appreciation or both. In the reporting period, one investment property was reclassified to inventories because according to the Group's assessment the development prospects of the property had changed significantly and it was no longer appropriate to classify it as a property held for capital appreciation or resale.

Investment properties are measured to fair value using four methods: the discounted cash flow method, the sales comparison method, the existence of a sales 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 market information. Therefore they are preferred over the residual value method. The residual value method, which assumes somewhat more extensive estimation, is used when other methods cannot be applied.

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 region where the Group's investment properties are located (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 for making the appraisal, the number of transactions with properties with no buildings was too small in that region. Consequently, 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. Thus, at the reporting date the Group had no basis for adjusting 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 cash flow through 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 these financial statements.

#### **Provisions and contingent liabilities (notes 23 and 35) (E)**

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

The Group makes provisions for warranty expenses. The provisions are recognised after the completion of construction activity and delivery of the work to the customer. As a rule, a warranty is given for two years but in recent years customers have started demanding longer warranty periods (three to five years). 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 provision that exceeds historical data.

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

### Determination of the useful lives of items of property, plant and equipment (note 16) (J)

Management estimates the useful life of an item of property, plant and equipment by reference to the expected usage and wear and tear the asset, historical experience and future plans. 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 17) (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 identifying the fair value (less costs to sell) or value in use of the cash-generating unit (CGU) to which goodwill has been allocated. Value in use is identified by estimating the future net cash flow to be derived from the CGU and by applying an appropriate discount rate so as to calculate the present value of that future cash flow. For the purposes of the Group's financial statements, a CGU is the subsidiary, associate 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 stable and financially sustainable state so that the terminal value for identifying value in use can be estimated on a going concern basis. The value in use of a CGU is compared against the cost of the investment made (including goodwill).

The projected net cash flows, which include both working capital investments and capital expenditures incurred to maintain non-current assets in the state they are in at the time the estimate is made, are discounted at the weighted average cost of capital (both debt and equity capital). The net operating cash flows of CGUs do not depend on the capital structure of the specific entity. Therefore, in determining the discount rate, the proportions of debt and equity capital have been identified based on the industry's average ratios in the Damodaran database. The discount rates used for estimating the value in use of the Group's CGUs range from 7.8% 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 costs, i.e. the costs incurred in connection with a business combination (except for the costs to issue debt or equity instruments for acquisition) are not considered part of the cost of the business combination. Such costs are recognised in profit or loss as incurred. The acquiree's income and expenses are included in the Group's profit or loss and the goodwill acquired in a business combination is recognised in the Group's statement of financial position from the date of acquisition.

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

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

#### Business combinations of entities under common control

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

#### Subsidiaries

Subsidiaries are entities controlled by the 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 Group holds, directly or indirectly through subsidiaries, 20% to 50% of the voting power of the investee.

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

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

The consolidated financial statements include the Group's share of the income and expenses and equity movements of equity-accounted investees, after adjustments to align their accounting policies with those of the Group, from the date the significant influence or joint control commences to the date the significant influence or joint control ceases.

When the Group's share of loss exceeds the carrying amount of the investment, the carrying amount of the investment is reduced to nil and recognition of future losses is discontinued except to the extent that the Group has a binding obligation to restore the investee's equity. In justified cases, losses may be covered by writing down receivables from an equity-accounted investee (e.g. long-term loans).

### 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 as well as the expenses that it incurs and the income that it earns from 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 parent'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 of the investment and the need to write the investment down.

### Translation of the financial statements of foreign subsidiaries

The assets and liabilities of foreign subsidiaries (including 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)*
1 euro (EUR)	31 December 2012	3.4528	10.5372
1 euro (EUR)	31 December 2013	3.4528	11.0415

\* The European Central Bank does not publish the exchange rates for UAH. Therefore, the exchange rates for UAH are based on the information published by the Central Bank of Ukraine.

### Foreign currency transactions

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

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

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

### Financial assets

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



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

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

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

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

#### **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. The effective interest rate is the rate that discounts the estimated future cash flows (including all significant transaction costs, premiums and discounts) of an investment to the net carrying amount of that investment.

Interest income on loans and receivables is recognised in profit or loss for the period. Loans and receivables are classified as current 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 finance costs, as appropriate. 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 market 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, which includes any directly attributable transaction costs. After initial recognition, financial liabilities are measured at amortised cost using the effective interest method except for financial liabilities at fair value through profit or loss. Financial liabilities are recognised using trade date accounting, i.e. at the date they are assumed (e.g. at the date when the agreement is signed).

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

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

#### Factoring

Accounting for proceeds from the sale of trade receivables (factoring) 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

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

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

Finished goods include apartments which have been completed through 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 (plots of land) acquired for development whose cost is assigned using specific identification of their individual costs.

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

### Investment property

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

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

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

When there is a change in use, 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 assets that are held for use in the production or supply of goods or services or for administrative purposes and are expected to be used for more than one year.

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

If an item of property, plant and equipment consists of significant parts that have different useful lives, the parts are accounted for separately and 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	Asset class	Useful life in years
Land	Not depreciated	Vehicles	5-7
Buildings and structures	33	Other equipment, fixtures and fittings	3-10
Plant and equipment	3-12		

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

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

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

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

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

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### Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are recognised as part of the cost of that asset. Borrowing costs that are directly attributable are those borrowing costs that would have been avoided if expenditure on the qualifying asset had not been made.

If funds are borrowed specifically for the purpose of obtaining a qualifying asset, the Group determines the amount of borrowing costs eligible for capitalisation as the actual borrowing costs incurred on the loan during the period less any investment income on the temporary investment of the borrowed amounts. Other borrowing costs are recognised in profit or loss in the period in which they are incurred using the effective interest rate method.

### Intangible assets

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

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

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

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

Intangible assets with indefinite useful lives are tested for impairment individually or as part of a cash-generating unit. Intangible assets with finite useful lives are tested for impairment whenever there is any indication that 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 investigation and research activities undertaken with the prospect of gaining new scientific or technical knowledge or gathering relevant information. Research expenditures are related to the creation of a scientific or technical basis for the development of new products or services and they are recognised as an expense as incurred.

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

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

## Impairment of assets

### Impairment of financial assets

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

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

#### *Financial assets measured at amortised cost*

An impairment loss 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 an asset that has been written down continues. When a financial asset for which an impairment loss has been recognised is recovered or another event occurs that reverses the impairment loss that has been recognised, the reversal is recognised in profit or loss by reducing the line item where the impairment loss was originally recognised.

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

#### *Available-for-sale financial assets*

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

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

### Impairment of non-financial assets

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

Goodwill is tested for impairment at least at each financial year-end and whenever events or changes in estimates indicate that 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 a business combination. Impairment losses on goodwill are recognised in profit or loss.

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

### Provisions and contingent liabilities

A provision is recognised in the statement of financial position when the Group has a legal or constructive obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Long-term provisions are recognised at their present value by applying a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision arising from the decrease in the discount period (unwinding of the discount) is recognised in profit or loss. Provisions are carried at their discounted present value if the effect of discounting is material.

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

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

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

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

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

### Short-term employee benefits

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

Liabilities 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 liabilities are not discounted.

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

## 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 assets acquired with finance leases in the statement of financial position and measures them at the lower of fair value and the present value of the minimum lease payments. Assets 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 its lease term and useful life. Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

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 of different periods are treated as reduction of the principal and as finance income, which is recognised over the lease term by applying the interest rate implicit in the lease.

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

## Statutory capital reserve

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

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

## Earnings per share

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

## Income tax

Income tax assets and liabilities and income tax income and expense comprise current and deferred items. Current tax (recoverable or payable) 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. Until 31 December 2013, 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 2014. 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 financial statements.

### Foreign subsidiaries, associates and joint ventures

In Ukraine, Finland and Lithuania corporate profits are subject to income tax. The income tax rates are as follows: Ukraine 19% (2012: 21%), Finland 24.5% (2012: 24.5%) and Lithuania 15% (2012: 15%). Taxable profit is calculated by adjusting profit before tax for permanent and temporary differences between the carrying amounts and tax bases of assets and liabilities as permitted by the local tax laws.

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

### Segment reporting

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

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

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

### Revenue

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

#### Revenue from construction contracts

Construction contract revenue and construction contract costs are recognised as revenue and expenses respectively when they can be measured reliably using the stage of completion method. Contract revenue comprises the initial amount of revenue agreed in the contract and variations in contract work and claims and incentive payments to the extent that it is probable that they will result in revenue and are capable of being measured reliably. The stage of completion of a contract is determined based on surveys of work performed, using, where necessary, as additional information the proportion that contract costs incurred for work performed bear to the estimated total contract costs. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

#### Revenue from rendering of other services

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

#### Revenue from sale of goods purchased and finished goods

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

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



## Finance income

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

## 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 (overheads).

If at the reporting date progress billings exceed the revenue recognised using the stage of completion method, the difference is recognised in the statement of financial position as a 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 entire expected loss is recognised immediately in profit or loss for the period.

## Discontinued operations

A discontinued operation is a component of the Group that represents a separate major line of business (a segment or sub-segment) or a geographical area of operation that has been disposed of or is classified as held for sale. 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 already in the comparative period to ensure comparability of information.

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

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

When there is any indication that an investment may be impaired or at least at each financial year-end, the Group tests its 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

The following new and revised standards, amendments to standards, and interpretations as adopted by the European Union that became effective for annual periods beginning on 1 January 2013 had an impact on the Group's financial statements:

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

IFRS 13 replaced the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. IFRS 13 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 did not introduce new requirements to measuring assets or liabilities at fair value, nor did it eliminate the practicability exceptions to fair value measurements that exist in certain standards.

The standard contains an extensive disclosure framework that includes additional disclosures, which 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.

On initial application the standard has a significant impact on the disclosures made 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). The Group adopted IFRS 13 *Fair Value Measurement* and it affected only the disclosures to be made.

- 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 has to be allocated between these sections.
- change the title of the statement of comprehensive income to statement of profit or loss and other comprehensive income but also allow using other titles.

Adoption of the amendments had an impact on the following items of other comprehensive income that may be subsequently reclassified to profit or loss: exchange differences on translating foreign operations (which amounted to -404 thousand euros at 1 January 2013 and -298 thousand euros at 31 December 2013).

The following new and revised standards, amendments and interpretations as adopted by the European Union, which became effective as from 1 January 2013, had 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)
- 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; earlier application is permitted)
- IAS 19 (2011) *Employee Benefits* (effective for annual periods beginning on or after 1 January 2013; 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; to be applied prospectively to production stripping costs incurred on or after the beginning of the earliest period presented).

## New and revised standards and interpretations as at 31 December 2013

By the reporting date some new and revised International Financial Reporting 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 were therefore not applied in preparing these consolidated financial statements. The following standards, amendments and interpretations may have an impact on the Group's financial statements:

- Amendments to IAS 36 – *Recoverable Amount Disclosures for Non-Financial Assets* (effective for annual periods beginning on or after 1 January 2014; to be applied retrospectively)

The amendments clarify that the recoverable amount should be disclosed only for individual assets (including goodwill) or cash-generating units for which an impairment loss was recognised or reversed during the period.

The amendments also require additional disclosures when impairment for individual assets (including goodwill) or cash-generating units has been recognised or reversed in the period *and* recoverable amount is based on fair value less costs of disposal.

It is expected that the amendment, when initially applied, will affect the level of disclosure in the Group's financial statements. However, the Group is not able to prepare an analysis of the impact this will have on its financial statements until the date of initial application.

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

- IFRS 10 *Consolidated 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)
- IAS 27 (2011) *Separate Financial Statements* (effective for annual periods beginning on or after 1 January 2014; earlier application is permitted if IFRS 10, IFRS 11, IFRS 12 and IAS 28 (2011) are also applied early)
- IAS 28 (2011) *Investments in Associates and Joint Ventures* (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)
- Amendments to IAS 39 – *Novation of Derivatives and Continuation of Hedge Accounting* (effective for annual periods beginning on or after 1 January 2014; to be applied retrospectively).

## 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 recognition and accurate assessment of the potential impacts of the risks faced by the Group as well as adherence to the risk management policies in place. The main objective of relevant activities is to prevent and manage risks which could have an adverse impact on the adequacy of working capital required for carrying out the Group's core business and which could jeopardise the Group's compliance with the terms and conditions set by providers of debt capital, adequacy 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 to a financial instrument will cause a financial loss for the Group by failing to discharge an obligation and thus the Group will not receive the cash flows to which it is entitled. The Group's main sources of credit risk are trade receivables and loans provided.

The factors, which have the strongest impact on the Group's credit risk exposure, are the specific circumstances of each customer. In addition, the Group's management considers more general features such as the customer's legal status (private or state-owned entity), geographical location, industry, and the economic situation in the country involved as these factors may also influence the Group's exposure to credit risk. Based on the Group's experience, private sector customers have the highest credit risk while the credit risk of government institutions and local governments is the lowest. The latter assessment is confirmed by the fact that there has been practically no need to write down receivables from public sector customers, mostly thanks to their stable solvency. In 2013, public sector projects accounted for around 60% of the Group's revenue (2012: around 59%). The Group has a relatively large customer base but from the point of view of credit risk the proportion of major customers may be significant. In 2013, the largest customer (the Estonian Road Administration) accounted for around 25% of the Group's revenue (2012: around 26%).

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 bonds 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 34.

### Liquidity risk

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

- The Group's business is seasonal in nature, particularly in the infrastructure segment. In the first quarter, business volumes and profit margins are the lowest and the Group needs to use the cash buffers accumulated in previous periods to cover operating and administrative expenses. In the second and third quarters, growth in operations triggers the need for additional working capital.
- Due to the settlement conditions prevailing in the construction 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 deficit in working capital, which arises from the mismatch between settlements received and made has to be covered with internal funds or using the credit lines provided by financial institutions.
- To ensure efficient performance of its operating activities, the Group needs to invest in plant and equipment and real estate.
- The Group has to settle its loan and lease liabilities on a timely basis.

Short-term liquidity management is based on 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 and factoring facilities provided by banks.

Long-term liquidity management is primarily influenced by investment decisions. In making investment decisions, the Group endeavours to avoid financing risk (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 invested in highly liquid interest-bearing money market instruments issued by banks or are placed term deposits with short maturities (up to 3 months).

#### *The Group's liquidity position in 2014*

At the reporting date, the Group's current assets and current liabilities amounted to 66,384 thousand euros and 65,244 thousand euros respectively (current ratio was 1.02). At the end of 2013 the Group reclassified loan receivables of 10,267 thousand euros connected with its Ukrainian operations, which in 2012 were classified as current items, to non-current assets. The change was prompted by the political upheaval, which began in Ukraine in November 2013 and led to a change in political leadership at the beginning of 2014. Ukraine is currently facing serious economic difficulties and will need the support of international organisations. After assessing the situation, the Group's management came to the conclusion that the receivables should be classified as non-current items.

Current liabilities include loan liabilities of 23,875 thousand euros. During the period 2009-2011 the Group operated with a loss, which reduced the free cash flows that could be used for settling financial liabilities. Since spring 2011, the Group has been working with the international consulting firm Roland Berger Strategy Consultants and its main financing partners to find ways for optimising the structure of its financial liabilities and thus ensure the sustainability of its operating activities. For this, the financing partners have refinanced the Group's short-term overdrafts, granted repayment holidays for long-term loans in the period 2011-2014 and provided the Group with additional short-term overdraft facilities for counteracting seasonal fluctuations in its cash flows (2013: 7,460 thousand euros). The activities will continue in 2014. By the date of release of this report, part of relevant negotiations has already been successfully completed. The practice of the financing partners is not to 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 2014, the Group believes that in 2014 loan liabilities of 18,203 thousand euros, which at the reporting date were classified as current items, can be refinanced. Out of this amount, liabilities of 15,003 thousand euros (short-term overdrafts of 8,861 thousand euros and long-term loans of 6,142 thousand euros) can be refinanced for a period exceeding twelve months. By the date of release of this report, banks have approved refinancing agreements on those amounts (some agreements have already been signed) (see note 18). During and as at the end of the reporting period, the Group was in compliance with all loan covenants pertaining to its financial position.

After adjustment for the above amounts, current assets and current liabilities would amount to 66,384 thousand euros and 50,241 thousand euros respectively (current ratio would be 1.32). In addition, according to the financing plan, in 2014 the financing partners will support the Group's liquidity position with additional overdraft facilities of approximately 7,300 thousand euros.

In light of the above, the Group's management is confident that in 2014 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 34.

#### **Market risk**

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

#### *Currency risk*

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

The Ukrainian national currency, the 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 US dollar- or euro-based loan and lease liabilities.

In the reporting period, the exchange rate of the hryvna against the US dollar and the euro remained relatively stable, weakening by around 5%. In 2013, the Group's foreign exchange losses from its Ukrainian operations totalled 137 thousand euros (2012: exchange losses totalled 69 thousand euros).

The change in Ukraine's political leadership at the beginning of 2014, economic difficulties and dispute with Russia over the autonomous region of Crimea have caused the exchange rate of the hryvna to tumble. By the date of release of this report, the hryvna has weakened against the euro by around 35%. For the Group's Ukrainian subsidiaries, this means additional exchange losses on the translation of loan commitments denominated in euros into the local currency. The reciprocal receivables and payables of the Group's Ukrainian and non-Ukrainian entities (items connected with the construction business) do not give rise to any material exchange losses. Nor do the loans provided to the Group's Ukrainian associates in euros give rise to exchange losses that ought to be recognised in the Group's financial statements.

At the reporting date, the Group's non-Ukrainian entities had no financial instruments denominated in hryvnas.

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 (LTL) against the euro is fixed. The Lithuanian subsidiary does not have financial instruments denominated in currencies other than the euro and the Lithuanian litas. At the reporting date, the Group's non-Lithuanian entities had no financial instruments denominated in litas.

#### *Interest rate risk*

The main source of the Group's interest rate risk is the possibility of a rapid upsurge in the base rate of floating interest rates (EURIBOR, EONIA or the creditor's own base rate). In light of the Group's relatively heavy loan burden this would cause a significant increase in interest expense, which would have an adverse impact on the Group's profit. The Group mitigates the risk by pursuing a policy of entering, where possible, into fixed-rate contracts when the market interest rates are low. As regards the loan products offered by banks, observance of the policy has proved difficult and most new contracts have a floating interest rate. The Group 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 34.

#### **Country risk**

At the reporting date, the Group conducted active business operations in two foreign markets - Ukraine and Finland. Revenues generated in those countries accounted for 0.5% and 4.9% of the Group's total revenue respectively (2012: Ukraine 0.2% and Finland 2%) while assets located in Ukraine and Finland accounted for 0.5% and 1.8% of the Group's total assets respectively (2012: Ukraine 0.3% and Finland 0.6%).

The country risk of Ukraine has increased due to the change in political leadership, the economic difficulties and the exacerbation of relations with Russia. All of those factors have had, to a greater or lesser extent, an adverse impact on the Ukrainian construction and real estate markets as well as the value of financial instruments related to Ukraine. For the Group, the negative effects of recent developments are somewhat alleviated by the fact that its Ukrainian business operations are concentrated in and around Kiev.

Taking into account the above factors, the Group's management is of the opinion that the Group's financial instruments that are related to Ukraine carry increased risk and the probability that their value may decrease is above average (see note 34).

#### **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 released by the Bank of Estonia.

A comparison of the fair values and carrying amounts of the Group's financial instruments is presented in note 34.

### Investment property

Properties that have been classified as investment properties are measured at their fair values. Where necessary, fair value is determined based on 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 resale or capital appreciation. As the transactions selected for comparison are practically never identical with the property being valued, their prices are adjusted to reflect differences in time, location, size and phase of the detailed design plan. Application of this method assumes that a sufficient number of arm's length transactions with similar properties are performed in the area in which the property is located around the time the valuation is performed (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 contract<sup>3</sup> has not yet been signed is determined based on the sales price of the property in the contract under the law of obligations. The method is used for determining the fair value of a property only when the Group has reasonable assurance that the related real right contract will be concluded under the same terms and conditions (e.g. the buyer has made a substantial prepayment by the reporting date or the real right contract is concluded after the reporting date but before the date management authorises the financial statements for issue). The method is also used when a contract under the law of obligations is signed after the reporting date but the terms of the transactions have been agreed before the end of the reporting period and they have not changed significantly by the date of the transaction.
- 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.

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

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 business plan) or actively marketed, and in respect of which the Group has not received any purchase bids from third parties. The Group has three such properties, all of which are located in western Estonia in or near Pärnu (all are without a detailed design plan).

The Group commissioned the valuations of those properties from an independent real estate appraiser. In the Estonian real estate market (particularly in areas outside the capital Tallinn), the number of comparable transactions (transactions with properties without buildings) is still very small. Accordingly, the independent appraiser decided not to express an opinion on the value of the Group's investment properties based on the sales comparison method on the grounds that the information available in the market was insufficient for determining fair value as defined in the valuation and accounting standards.

Hence, the Group measured the fair values of its investment properties using the 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, there was no need to recognise a change in the fair value of investment properties. The impact of changes in estimates on the value of the Group's investment properties is presented in note 15.

### 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 company.

The Group's gearing ratio has decreased compared with the previous year because in 2013 the Group settled a larger amount of long-term financial liabilities than in previous periods. This was done using cash raised from the sale of real estate. In the reporting period, the Group had repayment holidays on most of its long-term loans. The terms and conditions of the repayment holidays were agreed between the Group and the banks involved in 2011. In addition, use of the factoring facilities decreased by more than a half in connection with early settlements made by customers. The share of equity within invested capital increased through profit earned during the period.

Gearing ratio is at a level where it does not influence the Group's capital management policies and does not require the Group to raise additional share capital. The ceiling of the gearing ratio is linked to the size of equity. Based on the statutory minimum equity requirements (see the next section), the gearing ratio as at the reporting date could have extended to 51% (2012: 45%) assuming all other variables remained constant.

EUR '000	2013	2012
Total interest-bearing liabilities (note 18)	27,179	30,856
Cash and cash equivalents (note 8)	-12,575	-10,231
Net interest-bearing liabilities	14,604	20,625
Total equity	34,926	30,302
Invested capital (interest-bearing liabilities + equity)	62,105	61,158
Gearing ratio*	24%	34%

\*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 (actual ratio at the end of 2013: 33.4%; 2012: 27.1%).

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 was in compliance with all contractual and regulatory capital and ratio requirements.

### Dividend policy

Dividend policy plays a significant role in the Group's capital management. Dividend distributions are determined primarily by reference to:

- the dividend expectations of the ultimate controlling party 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%
2013	0	30,757	0	0%

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

According to the proposal of the board, in 2014 the company will distribute for 2013 dividends of 0.03 euros per share (923 thousand euros).

## NOTE 6. Group entities

The consolidated financial statements of Nordecon group as at and for the year ended 31 December 2013 include 23 subsidiaries (2012: 25), 19 of them operating in Estonia (2012: 19), 2 in Ukraine (2012: 4), 1 in Lithuania (2012: 1) and 1 in Finland (2012: 1).

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

Subsidiary	Core business	Country of incorporation	Ownership interest 2013 (%)	Ownership interest 2012 (%)
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 OÜ <sup>4</sup>	Holding company (UKR)	Estonia	64	64
Eurocon Vara OÜ	Holding company (UKR)	Estonia	100	100
Eurocon Ukraine TOV	Building construction	Ukraine	100	100
Eurocon West TOV <sup>5</sup>	Building construction	Ukraine	0	100
Instar Property TOV <sup>4</sup>	Real estate development	Ukraine	98	98
MP Ukraine TOV <sup>5</sup>	Concrete works	Ukraine	0	54
Estcon Oy	Concrete works	Finland	52	52
Nordecon Statyba UAB <sup>4</sup>	Building construction	Lithuania	70	70

<sup>4</sup> Dormant; <sup>5</sup> Was liquidated in the reporting period.

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 certain Group entities), Infra Ehitus OÜ and four entities holding properties with nature conservation restrictions: OÜ Paekalda 2, OÜ Paekalda 3, OÜ Paekalda 7 and OÜ Paekalda 9. All of them are domiciled in Estonia and are currently dormant.

At 31 December 2013, the Group also had interests in 5 associates (2012: 5) and 1 joint venture (2012: 1). Further information on equity-accounted investees is presented in note 12.

Information on changes in Group structure is provided in note 7.

## NOTE 7. Changes in Group structure

### Liquidation of subsidiaries

#### MP Ukraine TOV

In the period, the Group liquidated its Ukrainian subsidiary MP Ukraine TOV. The entity, which was established to offer concrete services in Ukraine, remained practically dormant throughout its life cycle. The liquidation did not result in any significant non-recurring expenses.

#### Eurocon West TOV

In the period, the Group also liquidated its Ukrainian subsidiary Eurocon West TOV. The entity, which was involved in general construction in western Ukraine until 2009, became dormant in 2010 and remained so until its liquidation. The liquidation did not result in any significant non-recurring expenses.

## NOTE 8. Cash and cash equivalents

EUR '000	31 December 2013	31 December 2012
Current accounts	12,575	10,231
<b>Total cash and cash equivalents</b>	<b>12,575</b>	<b>10,231</b>

The amounts in current accounts are placed in overnight deposits. In the reporting period, the interest rates of overnight deposits ranged from 0.05% to 0.10% (2012: 0.01-0.17%). The majority of the current accounts are with 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 disclosed in note 34.

## NOTE 9. Trade and other receivables

EUR '000		31 December 2013	31 December 2012
<b>Current portion</b>	<b>Note</b>	<b>31 December 2013</b>	<b>31 December 2012</b>
Trade receivables	34	17,255	20,408
Retentions receivable	27, 34	3,541	4,479
Receivables from related parties	34, 37	138	1,016
Loans to related parties	34, 37	1,786	10,474
Miscellaneous receivables		1,733	1,014
<b>Total receivables and loans provided</b>		<b>24,453</b>	<b>37,391</b>
Due from customers for contract work	27, 34	3,648	5,505
<b>Total trade and other receivables</b>		<b>28,101</b>	<b>42,896</b>

EUR '000		31 December 2013	31 December 2012
<b>Non-current portion</b>	<b>Note</b>	<b>31 December 2013</b>	<b>31 December 2012</b>
Loans to related parties	34, 37	10,267	1,168
Miscellaneous long-term receivables		378	386
<b>Total trade and other receivables</b>		<b>10,645</b>	<b>1,554</b>

Trade receivables are presented net of impairment allowances, which at the reporting date totalled -55 thousand euros (31 December 2012: -77 thousand euros). Changes in impairment allowances are disclosed in note 34.

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

## NOTE 10. Prepayments

EUR '000	31 December 2013	31 December 2012
Prepayments to suppliers	1,312	1,422
Prepaid taxes	392	172
Prepaid expenses	219	246
<b>Total prepayments</b>	<b>1,923</b>	<b>1,840</b>

Prepayments to suppliers comprise prepayments for services of 945 thousand euros (31 December 2012: 1,357 thousand euros) and for building materials of 367 thousand euros (31 December 2012: 65 thousand euros).

## NOTE 11. Inventories

EUR '000	31 December 2013	31 December 2012
Raw materials and consumables	3,623	3,524
Work in progress	5,061	7,374
Finished goods	878	1,604
Goods for resale and properties held for development	14,223	13,741
<b>Total inventories</b>	<b>23,785</b>	<b>26,243</b>

Raw materials and consumables comprise materials acquired for construction and road maintenance operations. In 2013, there were no significant write-downs of materials and consumables (2012: 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 the following items:

EUR '000	31 December 2013	31 December 2012
Capitalised pre-development expenditures	2,844	2,103
Other construction projects	2,217	5,271
<b>Total</b>	<b>5,061</b>	<b>7,374</b>
<b>Of which borrowing costs</b>	<b>851</b>	<b>697</b>

Finished goods comprise the construction costs of apartments completed but not yet sold. The decrease in finished goods reflects the sale of apartments. In the reporting period, the net realisable values of the apartments did not decrease below their carrying amounts and no write-downs were recognised (2012: no write-down). Net realisable values were estimated based on a comparison with the market prices of similar apartments.

At the reporting date, the total carrying value of properties (plots) acquired for real estate development was 14,223 thousand euros (2012: 13,741 thousand euros). A property acquired for development is carried within *Goods for resale and properties held for development* until it is sold as a separate asset or its development reaches the phase where the building on it is ready for sale at which point the property or part of it is reclassified to finished goods. All post-acquisition pre-development expenditures that qualify for capitalisation are recognised within work in progress. At 31 December 2013, properties acquired for development were carried at cost except for one plot that was carried at market value estimated by independent real estate appraisers. The write-down from the value adjustment amounted to 330 thousand euros (2012: no write-down) (note 31).

In the period, one investment property was reclassified to inventories because according to the Group's assessment the development prospects of the property had changed significantly and it was no longer appropriate to classify it as a property held for capital appreciation or resale. The fair value of the plot, when classified as an investment property, was 1,381 thousand euros (note 15). It was reclassified to inventories in the same amount.

Information on inventories pledged as collateral is provided in note 36.

#### Potential impact of changes in estimates

The Group measured the net realisable values of properties (plots of land) acquired for development using the residual value method. One of the key valuation inputs was the estimated amount of future cash flows (estimated sales price of apartments per square metre). A sensitivity analysis showed that if actual sales proceeds decreased by 10% (compared with the estimate), properties acquired for development would have to be written down by around 3,265 thousand euros.

The net realisable values of apartments completed but not sold were measured by reference to the actual sales prices of similar apartments sold near the reporting date. One of the key valuation inputs was price per square metre. A sensitivity analysis showed that if actual sales proceeds decreased by 10% (compared with the estimate), completed but unsold apartments would have to be written down by around 92 thousand euros.

## NOTE 12. Investments in equity-accounted investees

### General information on equity-accounted investees

Name and type of investee	Associate	Domicile	Group's interest		Business line
			31 December 2013	31 December 2012	
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 2013	31 December 2012
Investments in equity-accounted investees (associates and joint ventures)	566	202
<b>Total investments in equity-accounted investees</b>	<b>566</b>	<b>202</b>

## Financial information on equity-accounted investees

## 2013

## Summary financial information on associates, presented as separate companies

EUR '000	31 December 2013		2013		31 December 2013	
Associate	Assets	Liabilities	Equity	Revenue	Profit/loss	Carrying value of investment in the Group's accounts
V.I. Center TOV	14,281	19,358	-5,077	0	-992	0
Technopolis-2 TOV	486	2,363	-1,877	0	-360	0
Kastani Kinnisvara OÜ	335	318	17	181	-160	9
Sepavara OÜ	2	0	2	409	408	0
Pigipada OÜ	1,173	352	821	6,085	410	402
<b>Total</b>	<b>16,277</b>	<b>22,391</b>	<b>-6,114</b>	<b>6,675</b>	<b>-694</b>	<b>411</b>

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

Liquidation of Sepavara OÜ began in 2013. The proceedings did not result in any significant expenses or impairment losses for the Group. Liquidation proceedings were completed in April 2014.

In the reporting period, shareholders restored the negative equity of Kastani Kinnisvara OÜ through monetary contributions. The Group paid 266 thousand euros. The associate used 258 thousand euros of the amount received for reducing its accrued loan interest liabilities to the Group (note 37).

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

EUR '000	31 December 2013		2013		31 December 2013		
Joint venture	Current assets	Non-current assets	Current liabilities	Non-current liabilities	Revenue	Expenses	Carrying value of investment in the Group's accounts
Unigate OÜ	3,646	0	3,336	0	0	227	155

In the reporting period, the equity of Unigate OÜ was increased with monetary contributions. The Group contributed 350 thousand euros, an amount equal to that paid by the other shareholder. The joint venture reduced its accrued loan interest liabilities to the Group by the same amount (note 37).

The Group released the provision of 82 thousand euros, which had been recognised in 2012 for restoring the negative equity of the joint venture. Reversal of the provision was recognised within the Group's share of loss of equity-accounted investees reported in the statement of comprehensive income.

## 2012

## Summary financial information on associates, presented as separate companies:

EUR '000	31 December 2012		2012		31 December 2012	
Associate	Assets	Liabilities	Equity	Revenue	Profit/loss	Carrying value of investment in the Group's accounts
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
<b>Total</b>	<b>15,931</b>	<b>22,163</b>	<b>-6,232</b>	<b>4,163</b>	<b>-1,167</b>	<b>202</b>

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

EUR '000	31 December 2012				2012		31 December 2012
	Current assets	Non-current assets	Current liabilities	Non-current liabilities	Revenue	Expenses	
<b>Joint venture</b>							<b>Carrying value of investment in the Group's accounts</b>
Unigate OÜ	3,615	0	3,778	0	0	2	0

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

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

EUR '000	Recorded in 2013			Recorded in 2012		
	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	-436	0	-436	-258	0	-258
Technopolis-2 TOV	-180	0	-180	-102	0	-102
Kastani Kinnisvara OÜ	-42	-257	0	-45	0	-45
Sepavara OÜ	200	0	200	-199	0	-199
Pigipada OÜ	201	201	0	100	100	0
Unigate OÜ	-114	-114	0	-179	-179	0
<b>Total</b>	<b>-371</b>	<b>-170</b>	<b>-416</b>	<b>-683</b>	<b>-79</b>	<b>-604</b>

In the reporting period, the Group paid 266 thousand euros to restore the negative equity of Kastani Kinnisvara OÜ. The amount was used to cover 215 thousand euros of prior-period losses from Kastani Kinnisvara OÜ that were accounted for off the statement of financial position. In 2013, the Group's share of loss from Kastani Kinnisvara OÜ amounted to 42 thousand euros.

Following the contribution made to restore its negative equity, the associate settled its interest liabilities to the Group in an amount of 258 thousand euros, which allowed the Group to reverse prior-period impairment losses of 200 thousand euros recognised on loans provided (notes 32 and 37).

**NOTE 13. 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 conducting the jointly controlled operations, therefore each party recognises in its financial statements the assets used for construction, 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.

Name of jointly controlled operation	Group's interest		Total value of contract	
	2013	2012	2013	2012
Design and construction of the Aruvalla-Kose road section	99%	99%	40,330	40,167
Design and construction of construction package no 1 of Tartu city eastern ring road	99%	99%	14,496	13,944

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

**NOTE 14. Other long-term investments**

EUR '000	31 December 2013	31 December 2012
Other long-term investments	26	26
<b>Total other long-term investments</b>	<b>26</b>	<b>26</b>

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 2013, the carrying value of the investment did not change.

## NOTE 15. Investment property

EUR '000	2013	2012
<b>Investment property at 1 January</b>	<b>4,930</b>	<b>4,930</b>
Reclassification to inventories	-1,381	0
<b>Investment property at 31 December</b>	<b>3,549</b>	<b>4,930</b>

During the period, one investment property was reclassified to inventories because according to the Group's assessment the development prospects of the property had changed significantly and it was no longer appropriate to classify it as a property held for capital appreciation or resale (note 11).

In 2013, rental income on investment properties amounted to 10 thousand euros (2012: 11 thousand euros) and direct property management expenses totalled 2 thousand euros (2012: 3 thousand euros). Investment properties that do not generate rental income did not give rise to any significant property management expenses.

The Group measured the fair values of its investment property using the residual value method (see note 2 for a description). Both investment properties have an effective detailed design plan; the intended purpose of one is commercial land and that of the other is production land. The areas of the properties are around 15 thousand and 42 thousand square metres. According to their intended purpose, the construction prices of the buildings planned on the plots (one input of the residual value method) are around 675 euros and 485 euros per square metre. The construction price of the building planned on commercial land is relatively low because its location sets lower functionality requirements. Rental charges are up to 8.5 euros per square metre for commercial and up to 5 euros per square metre for production premises. Index-linked growth in rental and other income is up to 2.5% per year.

Under the fair value measurement hierarchy provided in IFRS 13 *Fair Value Measurement* the two investment properties have been categorised to Level 3, which means that their fair value has been measured using unobservable inputs (inputs for which market data is not available). The valuation of investment properties as at the end of 2013 had no impact on the Group's net profit or other comprehensive income for the year.

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

### Potential impact of changes in estimates

The rise in construction prices has a direct impact on the outcome of the measurement of the fair value of investment property. The Group tested the impact of a 5% increase in construction prices on the valuation computations on the assumption that all other variables remain constant. The test reflected that if construction prices rose by 5%, investment property would have to be written down by around 927 thousand euros.

Another key valuation assumption of the residual value method is the compliance of the applied rate of return expected by the owner with prevailing market conditions. The rates applied on valuation ranged from 15% to 16%. Taking into account the location and phase of development of the properties, the Group believes that the rates correspond to those expected on the market. The sensitivity analysis showed that if the expected rate of return were 3% higher, investment properties would have to be written down by around 1,353 thousand euros.

## NOTE 16. Property, plant and equipment

EUR '000	Land and buildings	Plant and equipment	Other items of PP&E	Assets under construction	Total
<b>Cost</b>					
<b>At 31 December 2011</b>	<b>2,346</b>	<b>18,055</b>	<b>3,459</b>	<b>123</b>	<b>23,983</b>
Additions	48	3,221	216	15	3,500
Reclassification	0	242	0	0	242
Disposals	0	-2,505	-175	-10	-2,690
Effect of movements in exchange rates	0	-6	-37	0	-43
<b>At 31 December 2012</b>	<b>2,394</b>	<b>19,007</b>	<b>3,463</b>	<b>128</b>	<b>24,992</b>
Additions	72	1,859	211	73	2,215
Reclassification	0	-172	172	0	0
Disposals	0	-1,659	-109	0	-1,768
Effect of movements in exchange rates	0	-15	7	0	-9
<b>At 31 December 2013</b>	<b>2,466</b>	<b>19,020</b>	<b>3,744</b>	<b>201</b>	<b>25,430</b>

The table continues on the next page

EUR '000	Land and buildings	Plant and equipment	Other items of PP&E	Assets under construction	Total
<b>Depreciation</b>					
<b>At 31 December 2011</b>	<b>391</b>	<b>13,436</b>	<b>2,719</b>	<b>0</b>	<b>16,546</b>
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
<b>At 31 December 2012</b>	<b>475</b>	<b>12,839</b>	<b>2,827</b>	<b>0</b>	<b>16,141</b>
Depreciation for the year	87	1,425	376	1	1,889
Disposals	0	-1,518	-103	0	-1,621
Effect of movements in exchange rates	0	-8	0	0	-8
<b>At 31 December 2013</b>	<b>562</b>	<b>12,738</b>	<b>3,100</b>	<b>1</b>	<b>16,401</b>
<b>Carrying amount</b>					
<b>At 31 December 2011</b>	<b>1,955</b>	<b>4,619</b>	<b>740</b>	<b>123</b>	<b>7,437</b>
<b>At 31 December 2012</b>	<b>1,919</b>	<b>6,168</b>	<b>636</b>	<b>128</b>	<b>8,851</b>
<b>At 31 December 2013</b>	<b>1,904</b>	<b>6,282</b>	<b>644</b>	<b>200</b>	<b>9,030</b>

Group entities have secured their liabilities by mortgaging their real estate (land and buildings). Information on assets pledged as collateral is provided in note 36.

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 cost of sales in an amount of 1,818 thousand euros (2012: 1,916 thousand euros) (note 29) and in administrative expenses in an amount of 71 thousand euros (2012: 121 thousand euros) (note 30).

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

EUR '000	2013			2012		
	Plant and equipment	Other items of PP&E	Total	Plant and equipment	Other items of PP&E	Total
Cost at 31 December	10,711	250	10,961	10,720	177	10,897
Carrying amount at 31 December	5,489	156	5,646	5,334	98	5,432

In 2013, the Group signed new finance lease contracts of 1,772 thousand euros (2012: 3,289 thousand euros).

## NOTE 17. Intangible assets

EUR '000	Note	Goodwill	Software licences	Trademarks	Development expenditures	Total
<b>Cost</b>						
<b>At 31 December 2011</b>		<b>14,426</b>	<b>70</b>	<b>863</b>	<b>323</b>	<b>15,682</b>
Disposals		0	-21	0	0	-21
<b>At 31 December 2012</b>		<b>14,426</b>	<b>49</b>	<b>863</b>	<b>323</b>	<b>15,661</b>
Additions		0	0	0	84	84
Write-down	31	-348	0	0	0	-348
<b>At 31 December 2013</b>		<b>14,078</b>	<b>49</b>	<b>863</b>	<b>407</b>	<b>15,397</b>
<b>Amortisation</b>						
<b>At 31 December 2011</b>		<b>0</b>	<b>62</b>	<b>660</b>	<b>0</b>	<b>722</b>
Amortisation for the year		0	10	99	0	109
Disposals		0	-27	0	0	-27
<b>At 31 December 2012</b>		<b>0</b>	<b>45</b>	<b>759</b>	<b>0</b>	<b>804</b>
Amortisation for the year		0	3	96	0	99
<b>At 31 December 2013</b>		<b>0</b>	<b>48</b>	<b>855</b>	<b>0</b>	<b>903</b>
<b>Carrying amount</b>						
<b>At 31 December 2011</b>		<b>14,426</b>	<b>8</b>	<b>203</b>	<b>323</b>	<b>14,960</b>
<b>At 31 December 2012</b>		<b>14,426</b>	<b>4</b>	<b>104</b>	<b>323</b>	<b>14,857</b>
<b>At 31 December 2013</b>		<b>14,078</b>	<b>1</b>	<b>8</b>	<b>407</b>	<b>14,494</b>



Capitalised development expenditures result from preparations made for the extraction of sand deposits from the seabed. The preparations will continue in 2014.

Amortisation has been recognised in the cost of sales in an amount of nil euros (2012: 3 thousand euros) (note 29) and in administrative expenses in an amount of 99 thousand euros (2012: 106 thousand euros) (note 30).

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

## Impairment testing for cash-generating units containing goodwill

The Group has acquired goodwill on the acquisition of interests in subsidiaries. Goodwill is related to the cash-generating capabilities of 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 2013	Interest 2012	31 December 2013	31 December 2012
<b>Nordecon AS</b>				
Goodwill*	-	-	8,206	8,206
<b>Subsidiaries</b>				
Nordecon Betoon OÜ	52%	52%	181	181
Kaurits OÜ	66%	66%	2,022	2,022
AS Eston Ehitus	98%	98%	3,669	4,017
<b>Total</b>			<b>14,078</b>	<b>14,426</b>

\* The goodwill of former subsidiaries Nordecon Ehitus AS and Nordecon Infra AS. The companies were combined with Nordecon AS 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 and other relevant information at the date the impairment test was performed:

- The forecast period was 2014-2017 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, AS Eston Ehitus) 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 2.4% to 5.0%, 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 2014) 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 2014) 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 2014.
- 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 2014 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	2014-2017 + terminal year
Discount rate	9.4%
Revenue change	2014: -16%, 2015-2017: compound annual growth rate (CAGR) 5.3%, terminal year: 1%
Gross margin	2014: based on budget, 2015-2017: gradual growth to 8%, terminal year: 8%
Administrative expenses	See general assumptions, 2014-2017: 3-4% of revenue, terminal year: 4%
Working capital	See general assumptions
Capital expenditures	See general assumptions

**Nordecon Betoon OÜ**

**Assumptions applied**

Forecast period	2014-2017 + terminal year
Discount rate	8.9%
Revenue change	2014: -14%, 2015-2017: compound annual growth rate (CAGR) 4.9%, terminal year: 1%
Gross margin	2014: based on budget, 2015-2017: gradual growth to 7.5%, terminal year: 7%
Administrative expenses	See general assumptions, 2014-2017: 2-3.5% of revenue, terminal year: 3.5%
Working capital	See general assumptions
Capital expenditures	See general assumptions

**Kaurits OÜ**

**Assumptions applied**

Forecast period	2014-2017 + terminal year
Discount rate	7.8%
Revenue change	2014: -7%, 2015-2017: compound annual growth rate (CAGR) 3.6%, terminal year: 1%
Gross margin	2014: based on budget, 2015-2017: gradual growth to 10%, terminal year: 10%
Administrative expenses	See general assumptions, 2014-2017: approx. 4% of revenue, terminal year: 4%
Working capital	See general assumptions
Capital expenditures	See general assumptions. In 2014-2017 the fleet of machinery needs to be renewed.

**AS Eston Ehitus**

**Assumptions applied**

Forecast period	2014-2017 + terminal year
Discount rate	10.0%
Revenue change	2014: 15%, 2015-2017: compound annual growth rate (CAGR) 10.8%, terminal year: 1%
Gross margin	2014: based on budget, 2015-2017: gradual growth to 8.5%, terminal year: 8%
Administrative expenses	See general assumptions, 2014-2017: approx. 2-2.5% of revenue, terminal year: 2.3% (own support functions will be minimal; a significant share of expenses will be included in project costs)
Working capital	See general assumptions
Capital expenditures	See general assumptions

Impairment testing showed that the recoverable amount of the CGU of AS Eston Ehitus had decreased below its carrying amount which included goodwill of 4,017 thousand euros. As a result, the goodwill acquired on the acquisition of AS Eston Ehitus was written down by 348 thousand euros (note 31).

CGU (EUR '000)	Segment	2013	2012
AS Eston Ehitus	Buildings	3,669	4,017
<b>Total</b>		<b>3,669</b>	<b>4,017</b>

**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 how a change in discount rates would affect the recoverable amount of goodwill. The total value in use of the cash-generating units to which goodwill has been allocated will exceed the carrying amount of the investments and the goodwill allocated to them as long as the rise in the weighted average discount rate (the rate applied in the calculations was 9.4%) does not exceed 5.1% percentage points, assuming all other variables remain constant.

## NOTE 18. Loans and borrowings

## Short-term loans and borrowings

EUR '000	Note	31 December 2013	31 December 2012
Overdraft liabilities		10,849	6,412
Current portion of long-term loans and borrowings, of which:		9,651	12,862
Bank loans		7,734	11,593
Other long-term loans		841	0
Finance lease liabilities	19	1,076	1,269
Short-term bank loans		0	1,051
Factoring liabilities		3,375	6,860
<b>Total short-term loans and borrowings</b>		<b>23,875</b>	<b>27,185</b>

## Long-term loans and borrowings

EUR '000	Note	31 December 2013	31 December 2012
Total long-term loans and borrowings		12,954	16,533
Of which current portion		9,651	12,862
<b>Non-current portion of long-term loans and borrowings, of which:</b>		<b>3,303</b>	<b>3,671</b>
Bank loans		545	220
Finance lease liabilities	19	2,758	2,467
Other long-term loans		0	984

## Details of loans as at 31 December 2013:

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%	1,844	0	0	1,844	31 March 2014
Overdraft	EUR	4.0%	3,441	0	0	3,441	30 September 2014
Overdraft*	EUR	Bank base rate+2.7%	4,863	0	0	4,863	31 January 2014
Overdraft	EUR	6M Euribor+ 2.5%	701	0	0	701	31 May 2014
Investment loan*	EUR	5.0%	611	0	0	611	31 March 2104
Investment loan*	EUR	4.1%	2,911	0	0	2,911	31 March 2014
Investment loan	EUR	6M Euribor+3.7%	1,850	0	0	1,850	6 June 2014
Investment loan	EUR	3M Euribor+3.7%	1,981	0	0	1,981	6 June 2014
Investment loan	EUR	6M Euribor+2.67%	324	383	0	707	11 January 2015
Investment loan	EUR	6M Euribor+1%	57	109	53	219	18 September 2017
Working capital loan	EUR	5%	841	0	0	841	1 August 2014
Factoring liability	EUR	EONIA+2.5%	3,375	0	0	3,375	30 September 2014
<b>Total loans</b>			<b>22,799</b>	<b>492</b>	<b>53</b>	<b>23,344</b>	

\* By the date of release of this report, an agreement on refinancing the loan has been signed (note 38).

Negotiations with the banks regarding refinancing of the Group's loan commitments will be held from March to May 2014. The decisions that will be made will affect all loan liabilities that mature in 2014. By the date of release of this report, banks have approved refinancing agreements in respect of liabilities of 18,203 thousand euros (includes contracts already signed), of which settlement of 15,003 thousand euros will be deferred to 2015.

## 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
<b>Total loans</b>			<b>25,916</b>	<b>1,091</b>	<b>113</b>	<b>27,120</b>	

## NOTE 19. Finance and operating leases

### The Group as a lessee

EUR '000	Note	2013	2012
<b>Finance lease liabilities at beginning of year</b>		<b>3,736</b>	<b>2,934</b>
Addition during the year		1,768	2,769
Principal payments made during the year		-1,670	-1,967
<b>Finance lease liabilities at end of year, of which</b>		<b>3,834</b>	<b>3,736</b>
Payable in less than 1 year	18	1,076	1,269
Payable between 1 and 5 years	18	2,758	2,467
Base currency EUR		3,834	3,736
Interest rate for EUR-based contracts*		2.0-5.2%	2.0-6.0%
Weighted average interest rate		3.25%	3.37%
Interest expense of the period		143	118
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	Payable in	2013			2012		
		Minimum lease rentals*	Interest	Present value of minimum lease rentals	Minimum lease rentals*	Interest	Present value of minimum lease rentals
	Less than 1 year	1,191	115	1,076	1,379	110	1,269
	Between 1 and 5 years	2,912	154	2,758	2,643	176	2,467
	<b>Total</b>	<b>4,103</b>	<b>269</b>	<b>3,834</b>	<b>4,021</b>	<b>285</b>	<b>3,736</b>

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

## Operating lease expenses

### Operating lease expenses recognised during the reporting period for:

EUR '000	2013	2012
Cars	641	649
Construction equipment	2,005	1,804
Premises	521	634
IT equipment	259	358
<b>Total operating lease expenses</b>	<b>3,426</b>	<b>3,445</b>

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

EUR '000		31 December 2013	31 December 2012
Within 1 year	Minimum amount of lease rentals payable	1,251	1,377
Between 1 and 5 years	Minimum amount of lease rentals payable	1,987	1,561

The leases can be terminated early if notice is given as agreed in the contracts.

## NOTE 20. Trade payables

EUR '000	Note	31 December 2013	31 December 2012
Trade payables		21,217	22,515
Accrued expenses related to contract work		4,979	9,445
Payables to related parties	37	176	8
<b>Total short-term trade payables</b>		<b>26,372</b>	<b>31,968</b>
Trade payables		156	259
<b>Total long-term trade payables</b>		<b>156</b>	<b>259</b>

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

## NOTE 21. Other payables

EUR '000	31 December 2013	31 December 2012
Payables to employees	5,059	3,014
Taxes payable	2,713	1,880
Accrued expenses	71	114
Miscellaneous payables	139	6
<b>Total short-term portion of other payables</b>	<b>7,982</b>	<b>5,014</b>
Other payables	96	96
<b>Total long-term portion of other payables</b>	<b>96</b>	<b>96</b>

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 2013	31 December 2012
Value added tax	1,366	547
Personal income tax	385	429
Social security tax	628	735
Other taxes	334	169
<b>Total taxes payable</b>	<b>2,713</b>	<b>1,880</b>

## NOTE 22. Deferred income

EUR '000	Note	31 December 2013	31 December 2012
Due to customers for contract work	27	5,886	11,323
Advances received for goods and services		216	81
<b>Total deferred income</b>		<b>6,102</b>	<b>11,404</b>

## NOTE 23. Provisions

EUR '000	31 December 2013	31 December 2012
Short-term provisions	913	521
Long-term provisions	969	1,210
<b>Total provisions</b>	<b>1,882</b>	<b>1,731</b>

**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)	2013	2012
<b>Opening balance</b>	<b>1,407</b>	<b>1,192</b>
Provisions used and reversed during the year	-614	-711
Provisions recognised during the year	753	926
<b>Closing balance, of which:</b>	<b>1,546</b>	<b>1,407</b>
Current portion	849	452
Non-current portion	697	955
<b>Other provisions (EUR '000)</b>	<b>2013</b>	<b>2012</b>
<b>Opening balance</b>	<b>324</b>	<b>134</b>
Provisions used and reversed during the year	165	223
Provisions recognised during the year	-152	-33
<b>Closing balance, of which:</b>	<b>336</b>	<b>324</b>
Current portion	64	69
Non-current portion	272	255

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

## NOTE 24. Share capital and reserves

### Share capital

EUR '000	2013	2012
At 1 January	19,657	19,657
<b>At 31 December</b>	<b>19,657</b>	<b>19,657</b>

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. Share capital consists of 30,756,728 ordinary shares with no par value.

### Capital reserve

The Estonian Commercial Code requires companies to create a capital reserve. Each year at least one twentieth of profit for the year has to be transferred to the capital reserve until the reserve amounts to one tenth of share capital. The capital reserve may be used for covering losses and increasing share capital but not for making distributions to shareholders. At the reporting date, share capital stood at 2,554 thousand euros (31 December 2012: 2,554 thousand euros).

### Translation reserve

The translation reserve comprises foreign exchange differences from the translation of the financial statements of foreign subsidiaries whose functional currency differs from the Group's presentation currency. At the reporting date, the translation reserve stood at -298 thousand euros (31 December 2012: -404 thousand euros).

### Dividends

In 2013, the parent company Nordecon AS did not distribute any dividends (2012: no dividend distribution).

## NOTE 25. Earnings per share

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

	2013	2012
Profit for the year attributable to owners of the parent (EUR'000)	4,642	1,477
Weighted average number of shares (in thousands)	30,757	30,757
Basic earnings per share (EUR)	0.15	0.05
Diluted earnings per share (EUR)	0.15	0.05

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

## NOTE 26. 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, in 2012, 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 gross 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.

## 2013

EUR '000	Buildings EU	Buildings UKR	Infrastructure EU	Other segments	Total
Total revenue	70,917	822	98,983	4,323	175,045
Inter-segment revenue	0	-45	-433	-2,432	-2,910
<b>Revenue from external customers</b>	<b>70,917</b>	<b>777</b>	<b>98,550</b>	<b>1,891</b>	<b>172,135</b>
<b>Gross profit of the segment</b>	<b>4,029</b>	<b>171</b>	<b>7,550</b>	<b>475</b>	<b>12,225</b>
Depreciation and amortisation	-92	-42	-1,178	-511	-1,823
Other significant non-cash items including asset write-downs*	-678	0	0	0	-678
<b>Segment assets</b>	<b>64,497</b>	<b>13,262</b>	<b>25,168</b>	<b>3,355</b>	<b>106,282</b>
Investments in equity-accounted investees	164	0	402	0	566
Capital expenditures	175	2	1,311	708	2,196

\*Comprises write-down of real estate by 330 thousand euros (note 11) and write-down of goodwill by 348 thousand euros (note 17).

## 2012

EUR '000	Buildings EU	Buildings UKR/BLR	Infrastructure EU	Other segments	Total
Total revenue	66,896	356	89,218	4,003	160,473
Inter-segment revenue	-64	-264	-52	-2,145	-2,525
<b>Revenue from external customers</b>	<b>66,832</b>	<b>92</b>	<b>89,166</b>	<b>1,858</b>	<b>157,948</b>
<b>Gross profit/loss of the segment</b>	<b>4,801</b>	<b>-304</b>	<b>4,344</b>	<b>224</b>	<b>9,065</b>
Depreciation and amortisation	-75	-104	-1,173	-644	-2,016
<b>Segment assets</b>	<b>67,157</b>	<b>10,322</b>	<b>24,604</b>	<b>3,321</b>	<b>105,404</b>
Investments in equity-accounted investees	0	0	202	0	202
Capital expenditures	15	237	3,027	463	3,742

## Adjustments

EUR '000	2013	2012
Depreciation and amortisation for reportable and other segments	-1,823	-2,016
Adjustments	-165	-130
<b>Consolidated depreciation and amortisation</b>	<b>-1,988</b>	<b>-2,146</b>
Other significant non-cash items for reportable and other segments including asset write-downs	-678	0
<b>Consolidated other significant non-cash items including asset write-downs</b>	<b>-678</b>	<b>0</b>
Capital expenditures for reportable and other segments	2,196	3,742
Adjustments	103	0
<b>Consolidated capital expenditures</b>	<b>2,299</b>	<b>3,742</b>
Investments in equity-accounted investees	566	202
Adjustments	0	0
<b>Consolidated investments in equity-accounted investees</b>	<b>566</b>	<b>202</b>

## Reconciliation of segment revenues

EUR '000	2013	2012
Total revenues for reportable segments	170,722	156,470
Revenue for other segments	4,323	4,003
Elimination of inter-segment revenues	-2,910	-2,525
Unallocated revenue	1,516	1,474
<b>Total consolidated revenue</b>	<b>173,651</b>	<b>159,422</b>

## Reconciliation of segment profit

EUR '000	2013	2012
Total profit for reportable segments	11,750	8,841
Total profit for other segments	475	224
Elimination of inter-segment profits and losses	-10	-17
Unallocated profits and losses	-906	-831
<b>Consolidated gross profit</b>	<b>11,309</b>	<b>8,217</b>
Unallocated expenses:		
Marketing and distribution expenses	-452	-389
Administrative expenses	-4,922	-5,385
Other operating income and expenses	-632	244
<b>Consolidated operating profit</b>	<b>5,303</b>	<b>2,687</b>
Finance income	668	622
Finance costs	-1,027	-1,248
Share of loss of equity-accounted investees	-170	-79
<b>Consolidated profit before tax</b>	<b>4,774</b>	<b>1,982</b>

## Reconciliation of segment assets

EUR '000	31 December 2013	31 December 2012
Total assets for reportable segments	102,927	102,083
Investments in equity-accounted investees	566	202
Total assets for other segments	3,355	3,321
Inter-segment eliminations	-13,595	-10,317
Unallocated assets	11,441	16,341
<b>Total consolidated assets</b>	<b>104,694</b>	<b>111,630</b>

## Geographical information

Revenue (EUR '000)	2013	2012
Estonia	164,303	156,801
Ukraine	822	348
Belarus	0	8
Finland	8,571	2,649
Inter-segment eliminations	-45	-384
<b>Total revenue</b>	<b>173,651</b>	<b>159,422</b>

Assets based on geographical location* (EUR '000)	2013	2012
Estonia	27,062	28,469
Ukraine	11	168
Lithuania	0	1
<b>Total assets</b>	<b>27,073</b>	<b>28,638</b>

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



## Changes in segment reporting

The changes implemented during the reporting period allowed the Group to present the gross profits of its reportable operating segments more accurately and, thus, to reduce the proportion of gross profit that previously could not be allocated to segments. The figures for the comparative period were restated as follows:

2012 EUR '000	Buildings EU	Buildings UKR/BLR	Infrastructure EU	Other segments	Total
Total revenue	187	0	28	0	215
Inter-segment revenue	0	0	-46	46	0
<b>Revenue from external customers</b>	<b>187</b>	<b>0</b>	<b>-18</b>	<b>46</b>	<b>215</b>
<b>Gross profit/loss of the segment</b>	<b>-167</b>	<b>0</b>	<b>-1,413</b>	<b>0</b>	<b>-1,580</b>

EUR '000	2012
Total revenues for reportable segments	215
Revenue for other segments	0
Elimination of inter-segment revenues	0
Unallocated revenue	215
<b>Total consolidated revenue</b>	<b>0</b>

EUR '000	2012
Total profit for reportable segments	-1,580
Total profit for other segments	0
Elimination of inter-segment profits	0
Unallocated profits and losses	1,580
<b>Consolidated gross profit/loss</b>	<b>0</b>

## NOTE 27. Construction contracts in progress

### Financial information on construction contracts in progress at the reporting date

Construction contracts in progress from date of commencement of projects (EUR '000)	31 December 2013	31 December 2012
Contract costs recognised using the stage of completion method	54,609	89,065
Estimated gross profit	6,308	6,499
Contract revenue recognised using the stage of completion method	60,917	95,564
Progress billings	63,155	101,382
<b>Difference between total progress billings and revenue recognised using stage of completion method</b>	<b>2,238</b>	<b>5,818</b>
Of which due from customers (note 9)	3,648	5,505
Of which due to customers (note 22)	5,886	11,323

At the reporting date, retentions receivable under construction contracts totalled 3,541 thousand euros (31 December 2012: 4,479 thousand euros) (note 9).

### Potential impact of changes in estimates

A 5% increase or decrease in the estimated stage of completion of all construction contracts 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	2013	2012	2013	2012	
Change in revenue +5%	6,709	9,835	Change in revenue -5%	-20,887	-17,620
Change in gross profit	655	648	Change in gross profit	-1,950	-1,295

## NOTE 28. 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 of government grants:

<b>Grants related to income (for covering operating expenses) EUR '000</b>	<b>2013</b>	<b>2012</b>
Deferred income from government grants at 1 January	0	0
Received from EU structural funds	323	237
Recognised as income from government grants	323	237
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 grants have been recognised in the statement of comprehensive income within the cost of sales.

## NOTE 29. Cost of sales

<b>EUR '000</b>	<b>2013</b>	<b>2012</b>
Cost of materials, goods and services	142,279	135,279
Personnel expenses	18,026	13,778
Depreciation and amortisation expense (notes 16 and 17)	1,818	1,919
Other expenses	219	229
<b>Total cost of sales</b>	<b>162,342</b>	<b>151,205</b>

In 2013, the Group employed, on average, 757 people (2012: 764 people).

## NOTE 30. Administrative expenses

<b>EUR '000</b>	<b>2013</b>	<b>2012</b>
Cost of materials, goods and services	1,994	2,020
Personnel expenses	2,638	3,025
Depreciation and amortisation expense (notes 16 and 17)	170	227
Other expenses	120	113
<b>Total administrative expenses</b>	<b>4,922</b>	<b>5,385</b>

## NOTE 31. Other operating income and expenses

### Other operating income

<b>EUR '000</b>	<b>2013</b>	<b>2012</b>
Gains on sale of property, plant and equipment	272	530
Foreign exchange gain	3	0
Other income	189	280
<b>Total other operating income</b>	<b>464</b>	<b>810</b>

### Other operating expenses

<b>EUR '000</b>	<b>Note</b>	<b>2013</b>	<b>2012</b>
Loss on sale and write-off of property, plant and equipment		14	130
Write-down of properties acquired for development and investment properties	11	330	0
Write-down of goodwill	17	348	0
Net loss on recognition and reversal of impairment losses on receivables	34	305	239
Foreign exchange loss		1	71
Other expenses		98	126
<b>Total other operating expenses</b>		<b>1,096</b>	<b>566</b>

## NOTE 32. Finance income and costs

### Finance income

EUR '000	2013	2012
Foreign exchange gain	37	6
Interest income on loans provided	618	602
Other finance income	13	14
<b>Total finance income</b>	<b>668</b>	<b>622</b>

Interest income on loans provided consists of interest income of 618 thousand euros (2012: 602 thousand euros) on loans provided to related parties (note 37).

### Finance costs

EUR '000	2013	2012
Interest expense	1,055	1,097
Foreign exchange loss	144	30
Other finance costs	-172	121
<b>Total finance costs</b>	<b>1,027</b>	<b>1,248</b>

Other finance costs include a cost reduction of 200 thousand euros recognised in connection with the reversal of a write-down of loans to an associate (notes 12 and 37) (2012: cost reduction of 181 thousand euros recognised in connection with discontinuance of operations in Belarus).

## NOTE 33. Income tax expense

EUR '000	%	2013	%	2012
Profit for the year		4,639		1,926
Income tax expense		-135		-56
<b>Profit before tax</b>		<b>4,774</b>		<b>1,982</b>
Income tax using the tax rate of the parent company	0%	0	0%	0
Income tax on dividends distributed by Estonian Group entities	-1.6%	-78	-2.2%	-44
Income tax in foreign jurisdictions	-1.2%	-57	-0.6%	-12
<b>Total income tax expense</b>	<b>-2.8%</b>	<b>-135</b>	<b>-2.8%</b>	<b>-56</b>

Under the effective Income Tax Act, 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 2013, the Group's Estonian subsidiaries paid a net dividend of 293 thousand euros, which gave rise to income tax expense of 78 thousand euros (2012: a net dividend of 166 thousand euros and income tax expense of 44 thousand euros). The share of dividends paid to non-controlling interests amounted to 121 thousand euros (2012: 80 thousand euros).

## NOTE 34. Financial instruments and financial risk management

### Credit risk

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

EUR '000	Note	2013	2012
Cash and cash equivalents	8	12,575	10,231
Trade receivables	9	17,255	20,408
Retentions receivable	9	3,541	4,479
Receivables from related parties	9	138	1,016
Loans to related parties	9	12,053	11,642
Other receivables	9	2,111	1,400
Due from customers for contract work	9	3,648	5,505
<b>Total</b>		<b>51,321</b>	<b>54,681</b>

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

EUR '000	2013	2012
Estonia	49,286	53,921
Ukraine	431	29
Lithuania	52	80
Finland	1,552	651
<b>Total</b>	<b>51,321</b>	<b>54,681</b>

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

EUR '000	31 December 2013			31 December 2012	
	Trade receivables	Impairment allowance	Trade receivables	Impairment allowance	
Not past due	14,238	0	15,732	0	
0-30 days past due	766	0	1,342	0	
31-180 days past due	155	0	288	0	
Over 180 days past due *	2,151	-55	3,123	-77	
<b>Total</b>	<b>17,310</b>	<b>-55</b>	<b>20,485</b>	<b>-77</b>	

\* 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 allowances for receivables

EUR '000	2013	2012
Impairment allowance at 1 January	-77	-2,790
Impaired items recovered during the year	50	11
Impairment losses on receivables recognised during the year	-355	-250
Items written off during the year	327	2,952
<b>Impairment allowance at 31 December</b>	<b>-55</b>	<b>-77</b>

In 2013, impairments recognised for receivables and changes in estimates of the recoverability of receivables gave rise to a net loss of 305 thousand euros (2012: 239 thousand euros) (note 31).

In 2013, receivables of 327 thousand euros that had been written down in previous periods were considered irrecoverable (2012: 2,952 thousand euros).

#### Credit risk related to a significant receivable

At the end of 2012, the Group had trade receivables of 2,398 thousand euros (plus late payment interest) related to the Seaplane Harbour exhibition building of the Estonian Maritime Museum whose settlement had become a matter of litigation between the customer and the Group entity that had done the work. Recovery of the receivables depended on the decision of the Arbitration Court of the Estonian Chamber of Commerce and Industry, which was expected to be made in the reporting period. In fact, the decision was rendered in February 2014. The court ordered partial settlement of the Group's principal claim which, together with late payment interest, amounted to 1,538 thousand euros. In the Group's opinion, the decision constituted an event providing evidence of conditions that existed at the end of the reporting period and, thus, the Group recognised a loss and revenue reduction from partial non-recovery of the receivables (note 38).

## Liquidity risk

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

EUR '000

Financial liability*	Carrying amount	Contractual cash flows	Less than 1 year	1-2 years	31 December 2013	
					3-5 years	More than 5 years
Overdraft liabilities (note 18)	10,849	10,996	10,996	0	0	0
Bank and other loans (note 18)	9,120	9,272	8,723	505	44	0
Finance lease liabilities (note 19)	3,834	4,104	1,192	1,865	1,047	0
Factoring liabilities (note 18)	3,375	3,391	3,391	0	0	0
Trade payables (note 20)	26,528	26,528	26,372	156	0	0
Other payables (note 21)	5,365	5,365	5,269	96	0	0
<b>Total</b>	<b>59,071</b>	<b>59,656</b>	<b>55,943</b>	<b>2,622</b>	<b>1,091</b>	<b>0</b>

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

EUR '000

Financial liability*	Carrying amount	Contractual cash flows	Less than 1 year	1-2 years	31 December 2012	
					3-5 years	More than 5 years
Overdraft liabilities (note 18)	6,412	6,544	6,544	0	0	0
Bank and other loans (note 18)	13,848	14,137	12,848	1,176	113	0
Finance lease liabilities (note 19)	3,736	4,021	1,379	1,378	1,264	0
Factoring liabilities (note 18)	6,860	6,886	6,886	0	0	0
Trade payables (note 20)	32,227	32,227	31,968	259	0	0
Other payables (note 21)	3,230	3,230	3,134	96	0	0
<b>Total</b>	<b>66,313</b>	<b>67,045</b>	<b>62,759</b>	<b>2,909</b>	<b>1,377</b>	<b>0</b>

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

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

- an overdraft facility of 74 thousand euros with a fixed interest rate of 4.00% per year;
- an overdraft facility of 137 thousand euros with an interest rate of the bank's base rate plus 2.7% per year;
- an overdraft facility of 49 thousand euros with an interest rate of 6M Euribor plus 2.5% per year;
- an overdraft facility of 126 thousand euros with an interest rate of 6M Euribor plus 3.95% per year.

In addition to overdraft facilities, the Group had access to factoring limits of 11,554 thousand euros in aggregate that can be used to speed up recovery of receivables with long settlement terms.

#### Guarantee commitments accounted for off the statement of financial position

Banks have provided the Group with construction-related guarantees of 21,253 thousand euros (2012: 34,629 thousand euros). According to management's estimates, at the reporting date the risk that the guarantees might be called upon was low. During the period 2007-2012 no bank guarantees were called upon due to non-performance of obligations related to construction operations. In 2013 one letter of guarantee was called on to the extent of 154 thousand euros due to a dispute about the contract. The Group challenged the enforcement of the guarantee and since the reporting date, 141 thousand euros of the amount has been repaid.

#### Refinancing of current financial liabilities in 2014

The Group believes that in 2014 loan liabilities of 15,003 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 8,861 thousand euros and refinancing/negotiation repayment holidays for long-term loans of 6,142 thousand euros (for further information, see note 5 *Financial risk management – Liquidity risk* and note 18).

## 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				2013
	EUR	LTL	USD	UAH
Cash and cash equivalents	12,524	148	0	91
Short-term receivables	27,644	33	0	4,952
Long-term receivables	10,645	0	0	0
<b>Total</b>	<b>50,813</b>	<b>181</b>	<b>0</b>	<b>5,043</b>
Current liabilities	64,880	2	0	4,033
Non-current liabilities	4,524	0	0	0
<b>Total</b>	<b>69,404</b>	<b>2</b>	<b>0</b>	<b>4,033</b>
<b>Net exposure</b>	<b>-18,591</b>	<b>179</b>	<b>0</b>	<b>1,010</b>

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

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

	Date	Lithuanian litas (LTL)	US dollar (USD)	Ukrainian hryvna (UAH)
1 euro (EUR)	31 December 2013	3.4528	1.3791	11.0415
1 euro (EUR)	31 December 2012	3.4528	1.3194	10.5372

### 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 a foreign currency in the Group's statement of financial position as at the end of the reporting period would have affected the Group's profit for the year. The analysis assumes that all other variables remain constant.

EUR '000	31 December 2013	31 December 2012
Strengthening of euro by 10%	-13	-99
Weakening of euro by 10%	16	121

## Interest rate risk

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

EUR '000	2013	2012
<b>Fixed rate financial instruments</b>		
Financial assets (loans provided to related parties and legal persons) (notes 9 and 37)	12,053	11,642
Financial liabilities (note 18)	7,804	5,763
<b>Floating rate financial instruments</b>		
Financial assets (cash and cash equivalents) (note 8)	12,575	10,231
Financial liabilities (including finance lease liabilities) (note 18)	19,374	25,093
<b>Net exposure</b>	<b>-6,799</b>	<b>-14,862</b>

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

	31 December 2013	31 December 2012
3 month Euribor	0.287%	0.187%
6 month Euribor	0.389%	0.320%
EONIA	0.446%	0.131%
Bank's base rate	0.853%	0.709%

#### 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 122 thousand euros (2012: 149 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	2013		2012	
	Carrying amount	Fair value	Carrying amount	Fair value
Cash and cash equivalents (note 8)	12,575	12,575	10,231	10,231
Trade receivables (note 9)	17,255	17,255	20,408	20,408
Retentions receivable (note 9)	3,541	3,541	4,479	4,479
Receivables from related parties (notes 9, 37)	138	138	1,016	1,016
Loans to related parties (notes 9, 37)	12,053	12,062	11,642	11,696
Other receivables (note 9)	2,111	2,111	1,400	1,400
Overdraft liabilities (note 18)	-10,849	-10,849	-6,412	-6,412
Bank and other loans (note 18)	-9,120	-9,152	-13,848	-13,920
Finance lease liabilities (notes 18, 19)	-3,834	-3,834	-3,736	-3,736
Factoring liabilities (note 18)	-3,375	-3,375	-6,860	-6,860
Trade payables (note 20)	-26,353	-26,353	-32,219	-32,219
Payables to related parties (notes 20, 37)	-176	-176	-8	-8
Other payables (note 21)	-5,269	-5,269	-3,230	-3,230
<b>Unrealised loss</b>		<b>-23</b>		<b>-19</b>

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	2013	2012
Loans provided	6%	6%
Loans received*	3.12%	3.21%

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

## NOTE 35. Contingent liabilities

### Contingent income tax liability

EUR '000	31 December 2013	31 December 2012
Retained earnings	10,681	6,039
Contingent income tax liability	-2,243	-1,268
Amount that could be distributed as the net dividend	8,438	4,771

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

### Guarantees and surety commitments

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

### Bank guarantees provided

At the reporting date, bank guarantees provided to customers for securing Group entities' commitments under construction contracts totalled 21,253 thousand euros (31 December 2012: 34,629 thousand euros).

### Surety commitments

Due to the expiry of underlying obligations, at the reporting date the Group had no effective surety commitments in respect of the obligations of its associates and non-Group third parties (31 December 2012: 153 thousand euros). Surety bonds issued by the parent to secure the subsidiaries' operating lease commitments not recognised in the statement of financial position totalled 550 thousand euros (31 December 2012: 216 thousand euros).

### 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 a share 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. In its ruling, which took effect on 20 May 2013, Tallinn Circuit Court confirmed Nordecon AS's obligation to make the payment because the Supreme Court had decided not to review the ruling of the circuit court in cassation. Nordecon AS believes, based on the terms of the agreement, that it has the right to demand that the sales agreement be signed and the share be transferred at the same value. Based on the estimated current value of the share, Nordecon AS has filed a claim of 538,520 euros against Aivar and Marika Noormets. Proceedings in this matter have reached the Supreme Court.

In addition, Nordecon AS has filed a motion, seeking that the Supreme Court declare the compulsory execution of the ruling of the Circuit Court that entered into force on 20 May 2013 non-permissible before a final decision has been made on the matter of Nordecon's claim that has reached the Supreme Court.

In both matters the position of the Supreme Court is hard to predict because there is no relevant Supreme Court practice. Accordingly, at the reporting date the Group classified the outcome of the two matters as a contingent liability, i.e. an obligation whose existence can only be confirmed by a future court ruling that cannot be predicted due to absence of relevant judicial practice.

## NOTE 36. Assets pledged as collateral

The Group has secured its financial liabilities with commercial pledges, mortgages and share pledges.

### Commercial pledges

At the reporting date, the parent and the subsidiaries had pledged their movable property under commercial pledges to the extent of 50,502 thousand euros (31 December 2012: 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 was 31,123 thousand euros (31 December 2012: 33,105 thousand euros). Mortgages deleted during the period totalled 1,982 thousand euros. Assets of the following classes have been mortgaged:

Line item in the statement of financial position (EUR '000)	2013	2012
Inventories (note 11)	12,719	14,701
Investment property (note 15)	639	639
Property, plant and equipment (land and buildings) (note 16)	767	767
Mortgages that cannot be linked to a specific asset class*	16,998	16,998
<b>Total</b>	<b>31,123</b>	<b>33,105</b>

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

### Share pledges

The Group has secured its loan liabilities by pledging its shares in the following subsidiaries: AS Eston Ehitus (98%), Järva Teed AS (100%) and Hiiu Teed OÜ (100%) (2012: the same shares to the same extent).



## NOTE 37. Transactions with related parties

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

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

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

EUR '000	2013		2012	
Counterparty	Purchases	Sales	Purchases	Sales
AS Nordic Contractors	319	0	370	3
Companies of AS Nordic Contractors group	6	691	20	5,873
Equity-accounted investees	1,170	26	180	23
Companies related to members of the council	53	254	59	0
<b>Total</b>	<b>1,548</b>	<b>971</b>	<b>629</b>	<b>5,899</b>

EUR '000	2013		2012	
Nature of transactions performed	Purchases	Sales	Purchases	Sales
Construction services	1,170	685	268	5,880
Lease and other services	378	286	361	19
<b>Total</b>	<b>1,548</b>	<b>971</b>	<b>629</b>	<b>5,899</b>

In 2013, the Group recognised interest income on loans to associates of 505 thousand euros (2012: 491 thousand euros) and on loans to joint ventures of 113 thousand euros (2012: 111 thousand euros).

### Receivables from and liabilities to related parties at period-end (notes 9 and 20)

EUR '000	31 December 2013		31 December 2012	
	Receivables	Liabilities	Receivables	Liabilities
AS Nordic Contractors	0	9	1	8
Companies of AS Nordic Contractors group	1	0	584	0
Associates - receivables	137	167	430	4
Associates – loans and interest	10,385	0	9,754	0
Joint ventures – loans and interest	1,668	0	1,889	0
<b>Total</b>	<b>12,191</b>	<b>176</b>	<b>12,658</b>	<b>12</b>

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

### Loan principal and accrued interest receivable from related parties

EUR '000	Related party	Interest rate	Currency	2013		2012	
				Loan	Of which interest	Loan	Of which interest
Kastani Kinnisvara OÜ	Associate	10.0%	EUR	118	1	195	2
Pigipada OÜ	Associate	5.0%	EUR	0	0	175	0
Technopolis-2 TOV*	Associate	6.5%	EUR	1,177	445	1,051	374
V.I. Center TOV	Associate	6.0%	EUR	9,090	1,970	8,332	1,544
Unigate OÜ	Joint venture	8.0%	EUR	1,668	269	1,889	507
<b>Total</b>				<b>12,053</b>	<b>2,685</b>	<b>11,642</b>	<b>2,427</b>
Of which current portion				1,786	270	10,474	2,427
Of which non-current portion				10,267	2,415	1,168	0

\* In the reporting period, the base currency of the loan was changed from USD to EUR and the interest rate was lowered from 11% to 6.5%.

In the period, the Group gave associates loans of 374 thousand euros (2012: 1,460 thousand euros) and associates repaid loan principal of 245 thousand euros (2012: 399 thousand euros) and settled loan interest of 258 thousand euros (2012: 18 thousand euros) (note 12).

During the period, the Group gave the joint venture a loan of 17 thousand euros (2012: 39 thousand euros) and received from the joint venture loan interest of 350 thousand euros (2012: nil euros) (note 12).

In 2013, the Group reversed prior period impairments of 200 thousand euros recognised on loan and interest receivables from the associate Kastani Kinnisvara OÜ (notes 12 and 32).

#### Other transactions with related parties

In the reporting period, shareholders restored the negative equity of Kastani Kinnisvara OÜ through monetary contributions. The Group paid 266 thousand euros (note 12). The equity of Unigate OÜ was increased with monetary contributions. The Group contributed 350 thousand euros, an amount equal to that paid by the other shareholder (note 12).

#### Remuneration of the council and the board

In 2013, 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 (2012: 141 thousand euros and 47 thousand euros respectively). Expenses on the provision for council members' performance bonuses, made based on the Group's performance indicators, amounted to 14 thousand euros and the provision for associated social security charges amounted 4 thousand euros (2012: 52 thousand euros and 17 thousand euros respectively).

The service fees of the members of the board of Nordecon AS amounted to 195 thousand euros and associated social security charges totalled 65 thousand euros (2012: 248 thousand euros and 82 thousand euros respectively, including the remuneration of the member of the board that was removed on 30 April 2012). Expenses on the provision for board members' performance bonuses, made based on the Group's performance indicators, amounted to 51 thousand euros and the provision for associated social security charges amounted 17 thousand euros (2012: 201 thousand euros and 66 thousand euros respectively, including the proportionate share of the member of the board that was removed on 30 April 2012).

## NOTE 38. Events after the reporting period

### Adjusting events after the reporting period

#### Arbitration Court decision and partial satisfaction of the claim against the Estonian Maritime Museum

At the beginning of the reporting period, the Group's statement of financial position included trade receivables of 2,398 thousand euros (plus late payment interest) related to the Seaplane Harbour exhibition building of the Estonian Maritime Museum, which had become the subject of litigation due to a dispute over work performed and payments to be made. The Arbitration Court of the Estonian Chamber of Commerce and Industry issued a decision on whether the Group's claim had merit on 26 February 2014. Based on the decision which recognised the claim in part and taking into account the late payment interest accrued until the date of the decision, the Group became entitled to 1,538 thousand euros. To date, the amount has been paid to the Group. The part of the claim, which was not recognised by the court, has been reported in the Group's financial statements as a revenue reduction and not as an impairment loss on receivables. In the Group's opinion, this depiction of the event provides the most faithful representation of the economic substance of the decision made by the Arbitration Court. Management is of the opinion that the decision constituted an event providing evidence of conditions that existed at the end of the reporting period. Based on the decision and taking into account the accrued interest, the Group recognised in the statement of comprehensive income for 2013 a revenue and gross profit reduction of 648 thousand euros.

### Non-adjusting events after the reporting period

#### Refinancing of loans provided

The Group has granted a twelve-month extension to loan agreements of 1,399 thousand euros whose maturity fell between the reporting date and the date of release of this report.

#### Refinancing of loans and borrowings

Banks have granted a twelve-month extension to the Group's loans and borrowings of 10,229 thousand euros whose maturity fell between the reporting date and the date of release of this report (note 18).

**Acquisition of the non-controlling interest in AS Eston Ehitus**

In January 2014, Nordecon AS acquired from the non-controlling owners 228 shares, i.e. a further 2.3% stake, in AS Eston Ehitus and became the subsidiary's sole owner. The transaction was performed because the obligation to purchase the remainder of the shares, assumed by Nordecon AS under the agreement on the purchase of the majority stake in AS Eston Ehitus in 2007, fell due. The transaction gave rise to goodwill of 98 thousand euros, which will be recognised in the Group's statement of financial position in 2014.

## NOTE 39. Parent company's primary financial statements

Under the Estonian Accounting Act, the primary financial statements of the consolidating entity (parent company) have to be disclosed in the notes to the consolidated financial statements. In preparing the primary financial statements of the parent 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 2013	31 December 2012
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	9,953	8,688
Trade and other receivables	25,102	39,628
Prepayments	1,007	1,380
Inventories	14,497	16,198
<b>Total current assets</b>	<b>50,559</b>	<b>65,894</b>
<b>Non-current assets</b>		
Investments in subsidiaries	11,056	11,056
Investments in associates and joint ventures	155	1
Investment property	327	1,637
Trade and other receivables	10,024	340
Property, plant and equipment	4,973	4,749
Intangible assets	8,213	8,309
<b>Total non-current</b>	<b>34,748</b>	<b>26,092</b>
<b>TOTAL ASSETS</b>	<b>85,307</b>	<b>91,986</b>
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Loans and borrowings	17,982	22,302
Trade payables	17,996	25,074
Taxes payable	1,513	1,208
Other payables	10,463	6,970
Deferred income	5,481	9,452
Provisions	421	283
<b>Total current liabilities</b>	<b>53,856</b>	<b>65,289</b>
<b>Non-current liabilities</b>		
Loans and borrowings	2,150	1,805
Other liabilities	0	158
Provisions	851	772
<b>Total non-current liabilities</b>	<b>3,001</b>	<b>2,735</b>
<b>TOTAL LIABILITIES</b>	<b>56,857</b>	<b>68,024</b>
<b>EQUITY</b>		
Share capital	19,657	19,657
Share premium*	569	569
Statutory capital reserve	2,534	2,534
Retained earnings	5,690	1,202
<b>TOTAL EQUITY</b>	<b>28,450</b>	<b>23,962</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>85,307</b>	<b>91,986</b>

\* 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	2013	2012
Revenue	131,155	116,191
Cost of sales	-122,757	-111,143
<b>Gross profit</b>	<b>8,398</b>	<b>5,048</b>
Marketing and distribution expenses	-375	-309
Administrative expenses	-3,252	-3,615
Other operating income	116	324
Other operating expenses	-253	-243
<b>Operating profit</b>	<b>4,634</b>	<b>1,205</b>
Finance income	931	1,008
Finance costs	-1,077	-1,232
<b>Net finance costs</b>	<b>-146</b>	<b>-224</b>
<b>Profit before income tax</b>	<b>4,488</b>	<b>981</b>
<b>Profit for the year</b>	<b>4,488</b>	<b>981</b>
<b>Total comprehensive income for the year</b>	<b>4,488</b>	<b>981</b>

## Statement of cash flows

EUR '000	2013	2012
<b>Cash flows from operating activities</b>		
Cash receipts from customers <sup>6</sup>	153,688	140,779
Cash paid to suppliers <sup>7</sup>	-137,763	-119,775
Cash paid to and for employees	-9,485	-8,721
VAT paid	-3,455	-4,256
<b>Net cash from operating activities</b>	<b>2,985</b>	<b>8,027</b>
<b>Cash flows from investing activities</b>		
Paid on acquisition of non-current assets	-386	-1,738
Proceeds from sale of non-current assets	66	0
Capital contributions to subsidiaries and joint ventures	-350	-55
Loans provided	-739	-1,256
Repayment of loans provided	335	121
Interest received	401	266
Dividends received	170	86
<b>Net cash used in investing activities</b>	<b>-503</b>	<b>-2,576</b>
<b>Cash flows from financing activities</b>		
Proceeds from loans received	2,997	2,785
Repayment of loans received	-2,738	-6,025
Payment of finance lease principal	-817	-730
Interest paid	-659	-802
<b>Net cash used in financing activities</b>	<b>-1,217</b>	<b>-4,772</b>
<b>Net cash flow</b>	<b>1,265</b>	<b>679</b>
Cash and cash equivalents at beginning of year	8,688	8,009
Increase in cash and cash equivalents	1,265	679
<b>Cash and cash equivalents at end of year</b>	<b>9,953</b>	<b>8,688</b>

<sup>6</sup> Line item *Cash receipts from customers* includes VAT paid by customers.

<sup>7</sup> 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
<b>Balance at 31 December 2011</b>	<b>19,657</b>	<b>569</b>	<b>2,534</b>	<b>221</b>	<b>22,981</b>
Profit for the year	0	0	0	981	981
<b>Balance at 31 December 2012</b>	<b>19,657</b>	<b>569</b>	<b>2,534</b>	<b>1,202</b>	<b>23,962</b>
Carrying amount of interests under control and significant influence	-	-	-	-	-11,057
Value of interests under control and significant influence under the equity method	-	-	-	-	6,000
<b>Adjusted unconsolidated equity at 31 December 2012</b>	-	-	-	-	<b>18,905</b>
<b>Balance at 31 December 2012</b>	<b>19,657</b>	<b>569</b>	<b>2,534</b>	<b>1,202</b>	<b>23,962</b>
Profit for the year	0	0	0	4,488	4,488
<b>Balance at 31 December 2013</b>	<b>19,657</b>	<b>569</b>	<b>2,534</b>	<b>5,690</b>	<b>28,450</b>
Carrying amount of interests under control and significant influence	-	-	-	-	-11,211
Value of interests under control and significant influence under the equity method	-	-	-	-	7,661
<b>Adjusted unconsolidated equity at 31 December 2013</b>	-	-	-	-	<b>24,900</b>

## Changes in the calculation of adjusted unconsolidated equity

On preparing the financial statements, the value of interests under control and significant influence under the equity method presented for the comparative period was restated due to identification of a calculation error. The effects of the restatement were as follows:

EUR '000	Original	Restated	+/-
<b>Balance at 31 December 2011</b>	<b>22,981</b>	<b>22,981</b>	<b>0</b>
Profit for the year	981	981	0
<b>Balance at 31 December 2012</b>	<b>23,962</b>	<b>23,962</b>	<b>0</b>
Carrying amount of interests under control and significant influence	-11,057	-11,057	0
Value of interests under control and significant influence under the equity method	5,046	6,000	+954
<b>Adjusted unconsolidated equity at 31 December 2012</b>	<b>17,951</b>	<b>18,905</b>	<b>+954</b>

## Statements and signatures of the board and the council

### Statement by the board

The board of Nordecon AS acknowledges its responsibility for the preparation of the Group's consolidated financial statements as at and for the year ended 31 December 2013 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 2014



Avo Ambur  
Member of the Board  
22 April 2014



Erkki Suurorg  
Member of the Board  
22 April 2014



### Statement by the Council

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

Toomas Luman  
Chairman of the Council  
24 April 2014



Alar Kroodo  
Vice-chairman of the Council  
24 April 2014



Andri Hõbemägi  
Member of the Council  
24 April 2014



Tiina Mõis  
Member of the Council  
24 April 2014



Meelis Milder  
Member of the Council  
24 April 2014



Ain Tromp  
Member of the Council  
24 April 2014







**KPMG Baltics OÜ**  
Narva mnt 5  
Tallinn 10117  
Estonia

Telephone +372 6 268 700  
Fax +372 6 268 777  
Internet www.kpmg.ee

## 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 2013, 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 39 to 95.

### 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 consolidated financial position of Nordecon AS as at 31 December 2013, 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 that explains the effect on the group of the events that have taken place in Ukraine since November 2013. According to the assessment of the parent company's management, the change in Ukraine's political leadership, economic difficulties and exacerbation of relations with Russia have increased Ukraine's country risk for the group. All of these factors have had, to a greater or lesser extent, an adverse impact on the Ukrainian construction and real estate markets as well as the value of financial instruments related to Ukraine. For the group, the negative impact is somewhat alleviated by the fact that its Ukrainian business operations are concentrated in and around Kiev. Having taken into account all relevant factors, at the end of 2013 the group reclassified loan receivables of 10,267 thousand euros connected with its Ukrainian operations, which previously were classified as current items, to non-current assets. Also, the group's management is of the opinion that the group's financial instruments that are related to Ukraine carry increased risk and the probability that their value may decrease is above average.

Andres Root  
Authorised Public Accountant no. 9  
KPMG Baltics OÜ  
Licence no. 17  
Narva mnt 5, Tallinn 10117  
22 April 2014

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## Profit allocation proposal

### Distributable profit of Nordecon AS:


	EUR '000
Retained earnings of prior years	6,039
Profit for 2013	4,642
<b>Total distributable profit at 31 December 2013</b>	<b>10,681</b>

The board makes the following proposals:

1. To distribute 0.03 euros per share as dividends (923 thousand euros);
2. Not to make any transfers to the capital reserve.

Jaano Vink	Chairman of the Board		22 April 2014
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Avo Ambur	Member of the Board		22 April 2014
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Erkki Suurorg	Member of the Board		22 April 2014
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