



Annual report 2015

Business name	Nordecon AS
Registry number	10099962
Address	Pärnu mnt 158/1, 11317 Tallinn, Estonia
Domicile	Republic of Estonia
Telephone	+372 615 4400
E-mail	nordecon@nordecon.com
Corporate website	www.nordecon.com
Core business lines	Construction of residential and non-residential buildings (EMTAK 4120) Construction of roads and motorways (EMTAK 4211) Road maintenance (EMTAK 4211) Construction of utility projects for fluids (EMTAK 4221) Construction of water projects (EMTAK 4291) Construction of other civil engineering projects (EMTAK 4299)
Financial year	1 January 2015 – 31 December 2015
Council	Toomas Luman (chairman of the council), Andri Hõbemägi, Vello Kahro, Sandor Liive, Meelis Milder
Board	Jaano Vink (chairman of the board), Avo Ambur, Erkki Suurorg
Auditor	KPMG Baltics OÜ

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Nordecon Group at a glance

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

For years, our 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 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 are currently operating in Ukraine, Finland and Sweden.

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

Nordecon AS's shares have been listed on the NASDAQ OMX Tallinn Stock Exchange since 18 May 2006.

VISION

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

MISSION

To offer our customers building and infrastructure construction solutions that meet their needs and fit their budget and, thus, help them maintain and increase the value of their assets.

SHARED VALUES

Professionalism

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

Reliability

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

Openness

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

Employees

We 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.

Letter from chairman of the council

Estonia has always strived to be an economically successful country where everyone – the people, the companies and the state – can flourish. Since the beginning of this decade when the effects of the latest economic crisis began to subside, recovery has been noticeable. In particular, this applies to the construction sector where changes in economic growth tend to have a magnified impact. However, the year 2015 proved once again that growth requires a joint effort. On the one hand, stronger earnings allowed Estonian companies to increase purchase of construction services. On the other hand, public procurement, which is heavily dependent on the EU support, plummeted: relevant funding accounted for only 5% of public revenue, the lowest level since 2003. As a result, the construction sector contracted, which also had an impact on Nordecon's revenues.

Inside the company, we have every reason to be satisfied with the year. Although volumes decreased, the Group succeeded in maintaining the projects' profit margins and ending the year with a strong fourth quarter. A lot of progress was made in improving the supporting activities, particularly at the asphalt production unit that caters to the needs of the entire road construction sub-segment. Experience gained in the volatile environment of the past decade has provided us with a capacity to respond flexibly to any changes in market conditions.

Looking forward, we are convinced that the development of the Estonian economy is going to depend increasingly on our own resources and added value. Similarly to the resources supplied by foreign banks, which fuelled our economic growth during the boom years but have now mostly been withdrawn to the source countries, in the long-term perspective the EU support will also be finite. Therefore, in our projections the Estonian construction sector will be a moderately growing market and we have updated Nordecon's strategic agenda for 2016-2020 accordingly.

The focus of our renewed strategy is on geographic expansion in our neighbouring Nordic countries. We would like to establish ourselves in the Swedish building construction market where we have started work on our first contract in Stockholm. We are going to increase our presence in the Finnish construction market with the objective of transforming gradually from a subcontractor in the concrete works segment into a general contractor offering a full range of construction services. In addition, we will carry on our business in Ukraine where demand in the Kiev area has started to pick up. In the next five years, we intend to raise the Group's revenue to at least 250 million euros and to earn around 25% of that revenue in foreign markets. Undoubtedly, this will require further internal restructuring but it will also open up new and challenging opportunities for both our experienced and new staff. The first steps in that direction have already been taken.

Toomas Luman

Chairman of the Council

Group chief executive's letter

For the Estonian construction sector as a whole, 2015 was another year of shrinking output which could be characterised as a completely ordinary and unexciting period, marked mainly by the ongoing standstill resulting from the change of the EU financial frameworks. No new EU-supported projects were launched and builders had to rely mostly on private sector investments in building construction. Although this was not unexpected, it was unsettling and increased tensions among market players.

Nordecon's vision for the year was clear: in a falling market the Group should not seek to increase sales at any cost but should rather focus on improving its operating efficiency and maintaining its profitability in a situation where volumes decline. Today we can say that this was the right move and we were able to make reasonable choices in a difficult market. The Group's revenue dropped to 146 million euros but gross margin even improved slightly, rising to 6.2%. For the second year in a row, our net profit was adversely affected by the complicated economic and political situation in Ukraine, which caused us to incur exchange losses of 0.6 million euros and expenses of 3 million euros from the write-down of loans provided for our two Ukrainian real estate projects. Despite this we believe that in the long-term perspective the vast Ukrainian market will offer great opportunities for the Group.

As customary in recent years, most of our revenue, i.e., 140 million euros, was earned in our home market Estonia where the bulk of it, i.e., 63% was generated by the Buildings segment. In the Infrastructure segment, the main revenue driver was road construction; all other sub-segments were essentially struggling, waiting for projects. When the local market does not offer sufficient opportunities, one is forced to look abroad. I am pleased to report that after a hectic start-up period our new subsidiary, SWENCN AB, began performing its first construction contract in Stockholm, Sweden. This along with a rise in our Ukrainian operations, and moderate progress made in Finland, allows us to flag 2015 as the year when we laid new groundwork for growth in our export markets.

We feel more optimistic about the outlook also thanks to the Group's order book (work secured but not yet performed) which showed solid year-over year growth, rising to 126 million euros by the year-end.

For several years, one of our key objectives has been to deliver new buildings and infrastructure assets to customers on time (or earlier) and at the agreed quality. Major projects completed during the year include the Lõõtsa 5 office building and the Eesti Loto head office in Tallinn, the shopping and leisure centre Viimsi Keskus in Haabneeme, construction package 5 of the Tartu western bypass in Tartu (design and construction work), and Estonia Spa in Pärnu (reconstruction work).

Our core business is provision of construction services. However, in order to balance the portfolio we have also increased our housing development operations. People have acquired new high-quality homes in both our Uus-Tammelin development in Tartu and our Magasini development in Tallinn. Work on those housing development projects will continue in 2016.

In the year that has started, Nordecon will have to face several challenges both at home and abroad. On behalf of our entire team, I promise that we will work hard to make sure that through the joint efforts of our staff and our kind customers and business partners these challenges will transform into satisfying assets which will help us all add value to our business.

Jaano Vink

Chairman of the Board

Directors' report

Strategic agenda for 2016-2020

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

Business activities until 2020

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

Employees until 2020

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

Financial targets until 2020

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

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

Estonia

During the year, the Group was involved in building and infrastructure construction, being active in practically all market sub-segments. A significant share of the core business was conducted by the parent, Nordecon AS, which is also a holding company for the Group's largest subsidiaries. In addition to the parent, construction management services were rendered by the subsidiaries Nordecon Betoon OÜ and AS Eston Ehitus which operates mostly in western and central Estonia.

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 maintenance 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 operating segments in Estonia.

Foreign markets

Ukraine

The conflict between Ukraine and Russia which broke out at the beginning of 2014 continued to influence the political and economic environment in Ukraine also in 2015. Due to economic uncertainty, the Ukrainian hryvnia continued to plummet against the euro, causing us to incur exchange losses of around 0.6 million euros for the period. In recent years, our bidding activities in Ukraine have been intentionally conservative, with work done in the capital Kiev and the surrounding area only. The ongoing military conflict, 700 km away in eastern Ukraine, has not had a direct impact on our operations, mostly because we right-sized our workforce during earlier periods of the recession already and have accepted only such contracts whose risks are reasonable under the circumstances. Our Ukrainian business volumes have grown somewhat compared to 2014, primarily because the situation in the Kiev region has stabilised, considering the background, and companies have started to adapt to the new environment. This in turn means that after a long-term standstill demand for different buildings in Kiev has started to pick up.

Real estate development activities which require major investments have been suspended to minimise the risks until the situation improves (we have currently stakes in two development projects that have been put on hold). Uncertainties relating to the Ukrainian economy and the weakening of the local currency have lowered the prices as well as the demand for commercial real estate to a level which so far has not been an argument for resuming development. During the year, we had to write down the loans provided for our Ukrainian development projects by a total of 2,977 thousand euros. To safeguard the investments, the Group and the co-owners have privatised the plots held by the associate V.I. Center TOV; the plots have also been mortgaged to secure shareholder loans.

Finland

There were no changes in our Finnish operations. The Group's subsidiary Nordecon Betoon OÜ and its Finnish subsidiary Estcon Oy continued to provide subcontracting services in the concrete work sector.

Sweden

In 2014, we made the strategic decision to start preparations for entering the Swedish construction market. In the period under review, the start-up work was completed and we began bidding in order to win contracts. In October 2015, we secured the first contract for the construction of a five-storey apartment building in Stockholm.

Latvia and Lithuania

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

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

Performance by geographical market

In 2015, around 4% of the Group's revenue was generated outside Estonia compared with 6% in 2014. The contribution of foreign markets has declined due to lower sales in Finland.

	2015	2014	2013	2012	2011
Estonia	96%	94%	95%	98%	97%
Ukraine	3%	2%	0%	0%	0%
Finland	1%	4%	5%	2%	2%
Belarus	0%	0%	0%	0%	1%

Finnish revenue resulted from concrete works in the building construction segment. The contribution of the Ukrainian market, where we mainly continued to perform one building construction contract, increased.

Geographical diversification of the revenue base is a consciously deployed strategy by which we mitigate the risks resulting from excessive reliance on a single market. However, economic conditions in our chosen foreign markets are also volatile and have a strong impact on our current results. Increasing the contribution of foreign markets is on Nordecon's strategic agenda. The Group's vision of its foreign operations is described in the chapter *Outlooks of the Group's geographical markets*.

Performance by business line

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

Nordecon's revenues for 2015 totalled 145,515 thousand euros, 9.8% down from the 161,289 thousand euros generated in 2014. Revenue declined in both of the main operating segments. In the Buildings segment, the decrease resulted from lower volumes in the industrial and warehouse facilities sub-segment. In other sub-segments, revenues grew. The revenues of the Infrastructure segment continued to be supported by road construction where volumes grew slightly compared with 2014. In other sub-segments, revenues dropped sharply.

Taking into account market developments, we strive to maintain the revenues of our operating segments (Buildings and Infrastructure) in balance as this helps disperse risks and provides better opportunities for continuing construction operations also in more challenging circumstances where one sub-segment experiences a slowdown while another begins to grow more rapidly.

Estonian construction market in 2015

According to preliminary data released by Statistics Estonia, in 2015 Estonian construction companies' total output (measured in current prices) amounted to 2,047 million euros, a 5% decrease compared with 2014. Work done in Estonia accounted for 89% of the total, consisting of building construction of around 1,300 million euros and infrastructure construction of around 732 million euros. Output decreased for the second year in a row. The factor which affected the construction market the most was a roughly one-tenth decline in infrastructure construction. However, the fact that building construction essentially stagnated and did not grow (in absolute terms) also played a role. As a result, competition intensified noticeably.

In building construction, growth was mainly underpinned by investments made by the private sector and the continuing recovery of the real estate market. The number of new dwellings grew for the fourth consecutive year. In 2015, 3,969 new dwellings (2014: 2,756) received a permit of use. Most of them were in apartment buildings located in and around Tallinn and Tartu. There continues to be demand for new high-quality housing in prime locations. Construction permits were issued for 5,588 new dwellings (2014: 3,941). Both the number and usable area of non-residential premises which received a permit of use increased year over year. The number of non-residential premises that received a permit of use was 1,071 and their total usable area was 626,700 square metres (2014: 785 and 529,000 respectively). The largest growth occurred in new warehouse, industrial, and office premises.

Construction output*	2014	2013	2012	2011	2010	2009	2008
Construction output in Estonia, in EUR millions	2,186	2,221	2,046	1,660	1,275	1,515	2,397
Of which buildings	1,384	1,332	1,222	958	718	902	1,579
Of which infrastructure assets	802	889	824	702	557	613	818

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

Segment revenues

As anticipated, the fall in infrastructure construction which affected the entire construction market also found reflection in the Group's revenue structure. For the second year in a row, building construction revenues outstripped those of infrastructure construction. In 2015, Buildings and Infrastructure generated revenue of 94,341 thousand euros and 47,628 thousand euros respectively. The corresponding figures for 2014 were 105,145 thousand euros and 51,585 thousand euros (note 26). This revenue structure was expected because at the beginning of 2015 73% of work in the Group's order book was attributable to the Buildings segment and 27% to the Infrastructure segment.

Revenue by segment *

Operating segments	2015	2014	2013	2012	2011
Buildings	64%	65%	41%	42%	48%
Infrastructure	36%	35%	59%	58%	52%

* In the *Directors' report*, the Ukrainian buildings segment and the EU buildings segment, which are disclosed separately in the consolidated financial statements as required by IFRS 8 *Operating Segments*, are presented as a single segment.

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

Sub-segment revenues

In 2015, the revenue structure of the Buildings segment changed considerably. The contribution of the industrial and warehouse facilities sub-segment contracted sharply while the contributions of other sub-segments increased. The largest revenue source continued to be the commercial buildings sub-segment.

The largest project in progress in the commercial buildings sub-segment is Arsenali Keskus, an office and retail complex in Tallinn. The construction of the Veerenni business building in Tallinn is close to completion. In 2015, we completed the reconstruction of Estonia Spa in Pärnu and the construction of an office building in Lõõtsa street in Tallinn and a shopping and leisure centre, Viimsi Keskus, in Haabneeme. In recent years, commercial buildings have generated around half of the revenue of the Buildings segment. It is not likely that investment in commercial buildings will continue at the same pace. Thus, we expect the revenue of the sub-segment to decline in 2016.

Most of our apartment building revenue resulted from general contracting. A substantial share of the work was done in Tallinn and the main revenue contributors were phases II and III of the Tondi residential quarter and phases I and II of the Pikksilma homes in Kadriorg. We are proud to report that the residential quarter with 410 apartments we are completing in Lepse street in the capital of Ukraine was selected as one of Kiev's three best housing development projects of the year. Work on all those projects will continue in 2016. We expect the contribution of the apartment buildings sub-segment to continue growing also in the current year. The contribution of our own development projects in Tartu and Tallinn continues to increase as well. In the first two development phases of the Tammelinn project in Tartu we have completed 3 apartment buildings. Sales have been very successful: by the year-end, 52 of the 55 apartments had been sold. In phase III, which is still under construction, 9 of the 20 apartments have been sold (www.tammelinn.ee). By the year-end, we had also sold 9 of the 20 apartment ownerships in the first three phases of our Magasini 29 development project in Tallinn (www.magasini.ee). On carrying out our own development projects, we monitor with due care potential housing development risks which may result from rapid growth in the supply of new housing as well as a comparative price increase.

The volumes of the public buildings sub-segment have grown mainly through the state's increasing investment in national defence. In 2015, we completed and delivered on time the buildings of the Võru state secondary school and the Lasva kindergarten and the work done on the premises of the Kuperjanov Infantry Battalion base. We

continue to build the Piusa border guard station, a building complex at the Ämari air base, and a barracks at the Tapa military base and have started with the design and construction of a warehouse complex at Lintsi.

The revenue of the industrial and warehouse facilities sub-segment declined due to a decrease in both agricultural projects, which used to dominate the sub-segment for a long time thanks to the EU support, and warehouse and logistics projects. We do not expect the volumes of the industrial and warehouse facilities sub-segment to grow significantly in 2016.

Revenue distribution in Buildings segment	2015	2014	2013	2012	2011
Commercial buildings	50%	42%	45%	26%	12%
Apartment buildings	22%	18%	5%	3%	3%
Public buildings	16%	7%	21%	36%	45%
Industrial and warehouse facilities	12%	33%	29%	35%	40%

Similarly to the two previous years, in 2015 the main revenue source in the Infrastructure segment was road construction. We completed the work started in 2014 on two major road construction projects: one in Tartu (construction package 5 of the Tartu western bypass) and the other in Keila (Keila-Valkse section of national road no. 8 Tallinn-Paldiski, km 24.9-29.5). In addition, we completed numerous smaller road repair projects whose total volume was substantial. The more important ones included surface dressing in Võru and Põlva counties and the reconstruction of the Tartu-Märja road. Compared with 2014, the volume of road construction for the private sector increased (e.g., ETK logistics centre). In addition, Nordecon continues to deliver road maintenance services in the Järva and Hiiu counties and the Keila and Kose maintenance areas in Harju county. We expect that road construction will remain the main revenue source in the Infrastructure segment also in 2016 and that similarly to 2015 most of the work will be done under small or medium-sized reconstruction and repair contracts.

Absence of the EU support continues to have a strong impact on environmental engineering whose volumes have decreased more rapidly than those of other sub-segments. The contracts secured by our other engineering sub-segment (utility network construction) are small and growth of the sub-segment is unlikely.

In specialist engineering, we did small-scale port construction work on the island of Hiiumaa. Investments in hydraulic engineering as well as the Group's relevant revenue have declined in recent years and we do not expect to secure any large hydraulic engineering projects in the near term. The revenues of the sub-segment may increase through other complex engineering projects but their addition is likely to be irregular.

Revenue distribution in Infrastructure segment	2015	2014	2013	2012	2011
Road construction and maintenance	81%	72%	54%	51%	47%
Other engineering	14%	19%	26%	27%	35%
Environmental engineering	4%	7%	12%	7%	8%
Specialist engineering (including hydraulic engineering)	1%	2%	8%	15%	10%

Awards and recognition received

Builder of the Year

Nordecon AS's project manager Peeter Voovere* won the Builder of the Year 2015 competition, organised by the Estonian Association of Construction Entrepreneurs. The project that brought the title was the reconstruction of St Paul's Church in Tartu.

Recognition from the Ministry of Defence

In February 2016, the Ministry of Defence decorated Nordecon AS's project manager Anno Veider* (project: construction of buildings and structures for the Kuperjanov Infantry Battalion) and Järva Teed AS's project manager Aleksandr Lember (project: construction of the Defence Forces' central training area) with a Golden Badge for a significant contribution to national defence.

City of Tartu Best Building 2015

Tartu City Government named the apartment building built by Eston Ehitus AS at Jakobi 25 the City of Tartu Best Building of 2015.

*Since spring 2015 at the Group's associate Embach Ehitus OÜ

Selection of completed projects

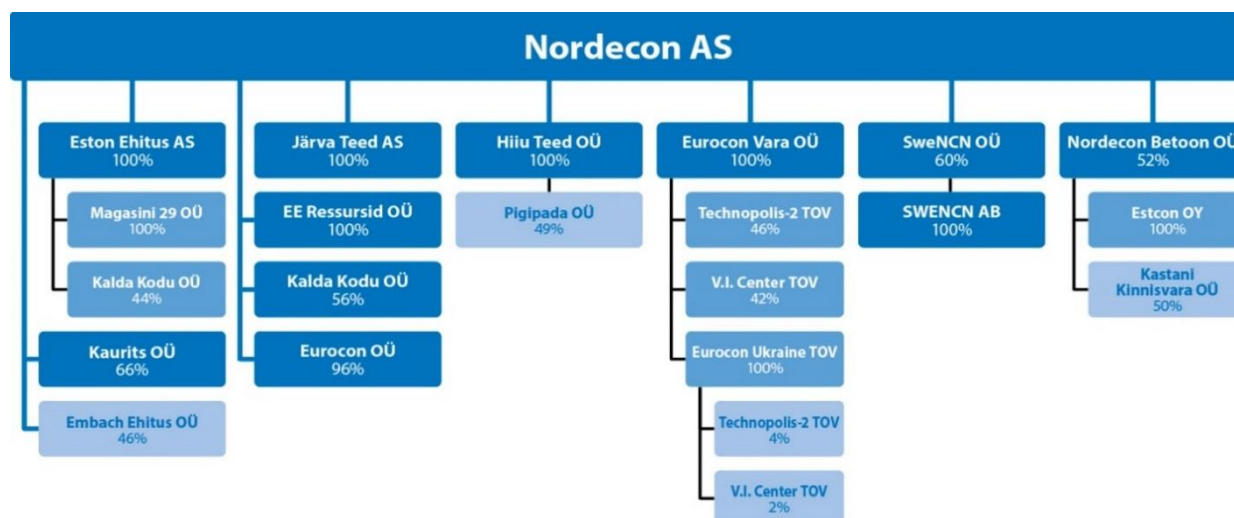
Major projects completed by Group entities in different sub-segments in 2015*:

Project	Group entity	Customer	Sub-segment
Design and construction of construction package 5 of the Tartu western bypass	Nordecon AS	Estonian Road Administration	Road construction
Reconstruction of the Keila-Valkse section of national road no. 8 Tallinn-Paldiski, km 24.9-29.5	Nordecon AS	Estonian Road Administration	Road construction
Design and construction of phase III in the reconstruction of the pipelines and water filtration plant of Sillamäe city	Nordecon AS	AS Sillamäe Veevärk	Other engineering
Construction of the Lõõtsa 5 office building in Tallinn	Nordecon AS	AS Technopolis Ülemiste	Commercial buildings
Construction of the Viimsi Keskus commercial building	Nordecon AS	Tallinna Kaubamaja Kinnisvara AS	Commercial buildings
Reconstruction of Estonia Spa in Pärnu	Nordecon AS	Estonia Spa Hotels AS	Commercial buildings
Construction of the Võru state secondary school	Nordecon AS	Võru City Government	Public buildings
Construction of the Lasva kindergarten	Nordecon AS	Lasva Rural Municipality Government	Public buildings
Construction the Defence League shooting range at Metsniku	Nordecon AS	Estonian Defence League	Public buildings
Construction of the Meerhof residence at Pirita tee 26 in Tallinn	Nordecon AS	Pirita Apartments OÜ	Apartment buildings
Construction of an apartment building at Kentmanni põik 3 in Tallinn	Nordecon AS	Sakubü OÜ	Apartment buildings
Construction of an apartment building at Jakobi 25 in Tartu	AS Eston Ehitus	Estero Haldus OÜ	Apartment buildings
Construction of a terraced house at Mõtuse 22/Tedre 61 in Tallinn	AS Eston Ehitus	Liven Kodu OÜ	Apartment buildings
Construction of the Pärnu Bay golf centre	AS Eston Ehitus	Golfer OÜ	Commercial buildings
Construction of the Eesti Loto office building	Nordecon Betoon OÜ	Hallivana OÜ	Commercial buildings
Construction of the Puiatu robotic dairy farm	Nordecon Betoon OÜ	Adavere Agro AS	Industrial and warehouse facilities
Design and construction of the Järvakandi Silica Sand Plant	Nordecon Betoon OÜ	O-I Production Estonia AS	Industrial and warehouse facilities
Concrete work for the Vão combined heat and power (CHP) plant	Nordecon Betoon OÜ	UAB Axis Technologies	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 2015, 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, OÜ Paekalda 9, Eurocon Bud TOV, Instar Property Ukraine TOV, Nordecon Statyba UAB and the associate Unigate OÜ that are currently dormant. The first four were established to protect former business names. Nor does the chart include investments in entities in which the Group's interest is less than 20%.

Significant changes in Group structure

SweNCN OÜ

On 6 February 2015, Nordecon AS acquired a 60% stake in SweNCN OÜ, a company being formed. The transaction took place on the date of signature of the entity's memorandum of association. The remaining 40% stake was acquired by Luksusjaht AS which has an 11.78% interest in Nordecon AS. The sole owner of Luksusjaht AS, Sven Lennart Alpstål, has a 0.09% stake in Nordecon AS.

The core business of SweNCN OÜ is construction of residential and non-residential buildings, primarily in central Sweden, through a wholly-owned subsidiary, SWENCN AB, acquired in Sweden. At the date of establishment, the share capital of SweNCN OÜ amounted to 2,500 euros. Nordecon AS made the investment to carry out research and preparations for a prospective expansion into a new geographical market and organise operations in the Swedish construction market.

Embach Ehitus OÜ

On 3 February 2015, Nordecon AS acquired a 46% stake in Embach Ehitus OÜ, a company being formed. The transaction took place on the date of signature of the entity's memorandum of association. The core business of Embach Ehitus OÜ is general contracting in the building construction segment. The company offers its services primarily to private sector customers that are interested in carrying out construction and development projects in southern Estonia. At the date of establishment, the share capital of Embach Ehitus OÜ amounted to 2,500 euros. Nordecon AS made the investment to respond flexibly to the changes taking place in the region's construction market and to move closer to prospective customers.

V.I. Center TOV

To better manage its business risks, in February 2015 the Group's Ukrainian subsidiary Eurocon Ukraine TOV sold most of its 44% stake in V.I. Center TOV, an entity holding a real estate development project, to Eurocon Vara OÜ. The transaction did not change the Group's ownership interest in V.I. Center TOV, which remained 44% through Eurocon Vara OÜ's 42% and Eurocon Ukraine TOV's 2%.

SWENCN AB

On 2 July 2015, Nordecon AS's subsidiary SweNCN OÜ acquired 100% ownership in SWENCN AB, a company registered in the Kingdom of Sweden, from the entity's sole shareholder Lennart Alpstål who is, through Luksusjaht AS, a shareholder in both Nordecon AS and SweNCN OÜ.

At the date of acquisition, the share capital of SWENCN AB amounted to 100,000 Swedish kronas (10,697 euros); the company's core business is provision of construction services. Acquisition of the company was a strategic decision aimed at enabling the Group to expand its operations and start providing construction services in Sweden.

Financial review

Financial performance

Nordecon Group ended the year 2015 with a gross profit of 9,031 thousand euros (2014: 9,813 thousand euros); the gross margin grew slightly, rising to 6.2% (2014: 6.1%). Despite increasing competition, we succeeded in maintaining our gross margin at the level of the previous year. Compared with 2014, the gross margin of the Infrastructure segment improved noticeably: from 6.8% to 8.6%. Most of the profit was earned in road construction and maintenance where margin improvement was underpinned by operational streamlining as well as a decline in certain input prices (materials such as bitumen). The profitability of the Buildings segment declined somewhat, largely due to strong competitive pressure that affected the margins of contracts secured in 2015. However, we would like to highlight the fourth quarter where the Group's overall gross margin rose to 9.3% compared with 3.6% a year earlier and both of our main operating segments improved their profitability.

The Group's administrative expenses for 2015 totalled 5,026 thousand euros, around 11% down from a year earlier (2014: 5,656 thousand euros). The ratio of administrative expenses to revenue was 3.5% (2014: 3.5%). Our cost-control measures continue to yield strong results: we have been able to keep administrative expenses below the target ceiling, i.e., 4% of revenue.

We ended 2015 with an operating profit of 3,933 thousand euros (2014: 4,015 thousand euros). EBITDA grew somewhat, rising to 5,769 thousand euros (2014: 5,585 thousand euros).

Adverse movements in the euro/hryvnia exchange rate gave rise to exchange losses that were smaller than a year earlier. In 2015, the Ukrainian currency weakened by around 27%, which meant that Group entities whose functional currency is the hryvnia had to restate their euro-denominated liabilities. Exchange losses reported in finance costs totalled 574 thousand euros (2014: 1,299 thousand euros). The same movements in the exchange rate increased the translation reserve in equity by 587 thousand euros (2014: 1,069 thousand euros) and the net effect of the exchange differences on the Group's net assets was a gain of 13 thousand euros (2014: a loss of 230 thousand euros).

Net profit for 2015 was strongly influenced by the fourth-quarter write-down of loans provided for the Group's two real estate development projects in Ukraine. The write-down of 2,977 thousand euros, which was recognised in finance costs, is attributable to Ukraine's continuing economic difficulties and the weakening of the hryvnia, which have lowered the prices of commercial real estate and relevant demand.

Nordecon Group's net profit for 2015 amounted to 174 thousand euros (2014: 2,298 thousand euros), of which net profit attributable to owners of the parent, Nordecon AS, was 179 thousand euros (2014: 1,956 thousand euros).

Cash flows

In 2015, operating activities generated a net cash inflow of 2,684 thousand euros (2014: an inflow of 4,014 thousand euros). Cash flows continue to be affected by the fact that neither public nor private sector customers are required to make advance payments while the Group has to make prepayments to sub-contractors, materials suppliers, etc. In the current market situation, a prepayment from a customer is an exception rather than a rule, which puts additional pressure on construction companies' cash flows. Cash inflow is also reduced by retentions, which generally extend from 5 to 10% of the contract price and are released only at the end of the construction period. In addition, cash flow is influenced by a mismatch between settlement terms: the ones agreed with customers are relatively long and in the case of public procurement mostly extend from 30 to 56 days while subcontractors generally have to be paid within 21 to 45 days. We use factoring to counteract the cyclical nature of the construction business and overdraft facilities to raise additional working capital. The slight increase in payments to employees results from bonuses paid for projects completed in the prior year with higher than expected profit margins.

Investing activities resulted in a net outflow of 220 thousand euros (2014: a net outflow of 1,013 thousand euros). Cash flows from investing activities were mainly influenced by acquisitions of property, plant and equipment of 480 thousand euros (2014: 355 thousand euros) and sales of used property, plant and equipment for 337 thousand euros (2014: 189 thousand euros). In 2015, the Group restored an associate's negative share capital by making a

capital contribution of 355 thousand euros. Through the same transaction, the associate settled its loan interest liabilities to the Group. Dividends received amounted to 108 thousand euros (2014: 4 thousand euros).

Financing activities resulted in a net cash outflow of 4,934 thousand euros (2014: a net outflow of 6,771 thousand euros). Financing cash flows are strongly influenced by loan and finance lease payments. The Group continued to repay long-term investment loans; loan repayments exceeded loan receipts by 1,350 thousand euros (2014: by 3,379 thousand euros). Investment in new road construction and maintenance equipment increased finance lease payments, which amounted to 1,726 thousand euros (2014: 1,432 thousand euros). Dividends distributed in 2015 totalled 1,091 thousand euros (2014: 940 thousand euros).

At 31 December 2015, cash and cash equivalents totalled 6,332 thousand euros (31 December 2014: 8,802 thousand euros). Management's comments on liquidity risks are presented in the chapter *Description of the main risks*.

Investments and capital expenditures

Equity investments

In 2015, we established a subsidiary and acquired a subsidiary for starting up operations in Sweden. Relevant investments, which totalled 10 thousand euros, are described in the *Directors' report*, in the chapter *Group structure*, and in notes 6 and 7 to the consolidated financial statements.

Investment properties

During the period, we did not purchase or sell any investment properties (properties held for resale, rental income or capital appreciation). There were no such transactions in the comparative period either (see note 14 to the consolidated financial statements).

Property, plant and equipment and intangible assets

In 2015, capital expenditures on property, plant and equipment totalled 2,258 thousand euros (2014: 2,299 thousand euros), the purchases falling into three broad categories: replacement of obsolete machinery and equipment, improvement of operating efficiency, and ensuring compliance with road maintenance requirements.

There were no major capital outlays on intangible assets (note 16).

Changes in the carrying amounts of relevant asset classes

Asset class (EUR '000)	2015	2014
Investments in equity-accounted investees (note 12)	485	128
Property, plant and equipment (note 15)	304	289
Intangible assets (note 16)	-24	139

In 2016, capital expenditures will increase somewhat compared with 2015. The focus will be on replacing obsolete machinery and equipment and improving operating efficiency.

Key financial figures and ratios

Figure/ratio	2015	2014	2013	2012	2011
Revenue (EUR '000)	145,515	161,289	173,651	159,422	147,802
Revenue change	-9.8%	-7.1%	8.9%	7.9%	48.8%
Net profit/loss (EUR '000)	174	2,298	4,639	1,926	-4,708
Profit/loss attributable to owners of the parent (EUR '000)	179	1,956	4,642	1,477	-5,304
Weighted average number of shares	30,756,728	30,756,728	30,756,728	30,756,728	30,756,728
Earnings per share (EUR)	0.01	0.06	0.15	0.05	-0.17
Administrative expenses to revenue	3.5%	3.5%	2.8%	3.4%	3.1%
EBITDA (EUR '000)*	5,769	5,585	7,639	4,833	-1,819
EBITDA margin	4.0%	3.5%	4.4%	3.0%	-1.2%
Gross margin	6.2%	6.1%	6.5%	5.2%	0.1%
Operating margin	2.7%	2.5%	3.1%	1.7%	-3.1%
Operating margin excluding gain on asset sales	2.4%	2.3%	2.9%	1.4%	-3.5%
Net margin	0.1%	1.4%	2.7%	1.2%	-3.2%
Return on invested capital	2.1%	5.8%	9.5%	5.2%	-5.9%
Return on equity	0.5%	6.4%	14.2%	6.6%	-15.2%
Equity ratio	40.1%	37.3%	33.4%	27.1%	28.0%
Return on assets	0.2%	2.3%	4.3%	1.8%	-4.8%
Gearing	25.5%	24.8%	23.5%	33.7%	32.8%
Current ratio (note 5)	1.03	1.02	1.02	1.08	1.14
As at 31 December	2015	2014	2013	2012	2011
Order book (EUR '000)	125,698	83,544	64,286	127,259	134,043

* EBITDA includes the effects of goodwill. 2014: impairment loss of 192 thousand euros and gain from a bargain purchase of 414 thousand euros; 2013: impairment loss of 348 thousand euros; 2011: impairment loss of 425 thousand euros; 2010: impairment loss of 411 thousand euros.

Revenue change = (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 gain on asset sales = ((operating profit – gain on sales of non-current assets – gain on sales of real estate)/revenue) *100	

Order book

At 31 December 2015, the Group's order book (backlog of contracts signed but not yet performed) stood at 125,698 thousand euros, a roughly 50% increase on the previous year-end. Order books grew in both the Buildings and the Infrastructure segment. In the fourth quarter of 2015, we secured new contracts of 56 million euros, which is recent years' largest quarterly order book growth.

As at 31 December	2015	2014	2013	2012	2011
Order book (EUR '000)	125,698	83,544	64,286	127,355*	134,043

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

At the reporting date, contracts secured by the Buildings segment and the Infrastructure segment accounted for 72% and 28% of the Group's order book respectively (31 December 2014: 73% and 27% respectively). It is likely that the Buildings segment will continue to dominate the order book in the next few years.

Compared with a year earlier, the order book of the Buildings segment grew by around 48%. Major growth was posted in all sub-segments except commercial buildings whose order book contracted by over 60%. The order book of the apartment buildings sub-segment grew mostly through contracts signed at the end of 2015 for the construction of the Meerhof 2.0 building complex at Pirita tee 20a and five apartment buildings in the city of Brovary in the Kiev region in Ukraine (the contracts were secured under a frame agreement signed in autumn 2015). It should also be noted that in October 2015 we signed a contract for the construction of a five-storey apartment building in Stockholm, Sweden, where most of the construction work will be done in 2016. Growth in the order book of the public buildings sub-segment is mostly attributable to the design and construction of the Järveküla school and the Lintsi warehouse complex that started at the end of 2015. A substantial share of work under those contracts will be carried out in 2016. Slight growth in the order book of the industrial and warehouse facilities sub-segment results from the construction of a warehouse for Riigiressursside Keskus OÜ and the South Terminal (a cereals storage and handling complex) for farmers' cooperative KEVILLI.

Compared with a year earlier, the order book of the Infrastructure segment grew by around 57%. The rise was mainly underpinned by growth in the road construction sub-segment, which was supported by the contracts secured for the provision of road maintenance services in the Järva, Hiiu, and Kose road maintenance areas in the period 2016-2021. The order books of the environmental engineering sub-segment, which signed a contract for the design and construction of an extension to the Kohtla-Järve wastewater treatment plant, and other engineering sub-segment also grew somewhat. However, due to the small size of their contracts, this did not have a strong impact on the segment's overall portfolio growth.

According to our estimates, in 2016 the volume of public investments will not increase substantially compared with 2015 and the new EU financial framework (2014-2020) will not have an impact on the construction sector before the second half-year. Thus, we do not expect the revenues of the Infrastructure segment to increase in 2016 (for further information, see the *Business risks* section of the chapter *Description of the main risks*).

In the light of order book growth and developments in our chosen markets, we forecast volume growth for 2016. In an environment of stiff competition, we pursue the policy of avoiding unjustified risks whose realisation in the contract performance phase would have an adverse impact on our financial performance. Instead, we prefer to keep costs under control and focus on projects with positive prospects.

People

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

Staff and personnel expenses

In 2015, the Group (the parent and the subsidiaries) employed, on average, 690 people including 356 engineers and technical personnel (ETP).

Average number of the Group's employees

Year	Engineers and technical personnel	Workers	Total average
2015	356	334	690
2014	357	375	732
2013	357	400	757
2012	367	397	764
2011	351	380	731

Our team is dynamic. The average age of management personnel is slightly above 40 and that of engineers and technical staff 37. On average, our people have been with us for 9 years and men and women account for 85% and 15% of the staff respectively. Compared with a year earlier, in 2015 the average length of employment increased by one year and the proportion of women rose from 13% to 15%.

Headcount decreased by around 6% through a decline in the number of workers which resulted from shrinkage in the portfolio of work performed with own resources. Personnel expenses dropped by around 9%, year over year,

through a smaller headcount and a decrease in performance bonuses paid. The Group's personnel expenses for 2015 including all taxes totalled 18,248 thousand euros (2014: 20,099 thousand euros).

In 2015, the service fees of the members of the council of Nordecon AS amounted to 139 thousand euros and associated social security charges totalled 46 thousand euros (2014: 141 thousand euros and 47 thousand euros respectively). The provision for the council's performance bonuses, made based on the Group's performance indicators, amounted to 37 thousand euros and the provision for associated social security charges totalled 12 thousand euros (2014: 113 thousand euros and 37 thousand euros respectively).

The service fees of members of the board of Nordecon AS amounted to 322 thousand euros and associated social security charges totalled 106 thousand euros (2014: 262 thousand euros and 87 thousand euros respectively). The provision for the board's performance bonuses, made based on the Group's performance indicators, amounted to 188 thousand euros and the provision for associated social security charges totalled 62 thousand euros (2014: 387 thousand euros and 128 thousand euros respectively).

Labour productivity and labour cost efficiency

Nominal labour productivity dropped compared with 2014 because revenue decline outstripped the decrease in workforce.

We measure the efficiency of our operating activities using the following productivity and efficiency indicators, which are based on the number of employees and personnel expenses incurred:

	2015	2014	2013	2012	2011
Nominal labour productivity, (EUR '000)	210.9	220.4	229.4	208.7	202.3
Change against the comparative period	-4.3%	-4.0%	9.9%	3.2%	57.7%
Nominal labour cost efficiency, (EUR)	8.0	8.0	8.4	9.5	10.4
Change against the comparative period	-0.6%	-4.8%	-11.6%	-8.6%	51.6%

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

In 2015, the focus of our staff training activities remained on further professional training. Improving professional qualifications is held in high esteem and in connection with the renewal of the professional standards system this will remain a priority also in the coming years. We have 67 ETP staff that have a certified professional qualification. We support gathering of personal references and encourage project managers and teams to implement new and innovative technical solutions, which allow managing more complex and demanding projects. Teamwork and intra-Group knowledge sharing play an important role and we consistently organise different internal training courses.

We hire new specialists mostly from Tallinn University of Technology and Tallinn College of Engineering. In 2015, more than 30 of our ETP staff were studying at higher education institutions, half of them working for a master's degree. Altogether, 71% of our ETP staff have or are obtaining higher education. We believe that it is important that students who are going to enter the labour market should be able to gain hands-on industry experience as early as possible. In 2015, our companies provided internship opportunities to over 20 students from different education institutions. Most of the interns were from Tallinn University of Technology and Tallinn College of Engineering but we also had interns from Järva County Vocational Training Centre, the Estonian University of Life Sciences and Tallinn Construction School.

Other human resource activities

Nordecon's employees are keen on sports – our people participate in running events such as the SEB May Run and the SEB Tallinn Marathon and our team takes part in the Tartu Complex Event. Participation in the Kuulsaal Bowling Tournament for Companies has become customary. Several times a year we organise kayaking or canoeing trips as well as orienteering games and other events for smaller groups of enthusiasts in picturesque places across Estonia. In autumn, there is a traditional bicycle trek to Kõrvemaa. We also go together to the A Le Coq football stadium to support the Estonian national team.

The staff appreciate joint tours of construction sites. In 2015 we organised visits to our asphalt plant, the Keila-Valkse road construction site and the buildings completed in Pärnu.

We have a long-standing tradition of reviewing past performance and discussing future plans at our annual Winter Seminar. The event, which takes place in February, brings together more than 200 employees from across the Group.

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 2015, donations and support payments totalled 221 thousand euros (2014: 257 thousand euros).

We make substantial donations to education. For example, we support the Development Foundation of Tallinn University of Technology and finance the Heinrich Laul scholarship that is awarded to a student of Tallinn University of Technology that is working for a doctor's degree in engineering and a separate Nordecon scholarship that is awarded to a student working for a bachelor's degree in engineering. For years, we have been among the main sponsors of the Nõmme Private Education Foundation.

Our companies are generous sponsors of sports. We work with sports club Duo (volleyball team Bigbank Tartu and work with children) and basketball club Tartu Ülikool/Rock. During the year, we continued our cooperation with Rauno Liitmäe, a young decathlete, and Karl-Martin Rammo, a sailing athlete who is pursuing the Rio de Janeiro Olympics. The purpose 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 opportunities.

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

Share and shareholders

Share information

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

* In connection with Estonia's accession to the euro area on 1 January 2011 and based on amendments to the Estonian Commercial Code 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 with no par value.

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

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

Summarised trading results

Share trading history

Price (EUR)	2015	2014	2013	2012	2011
Open	1.02	1.05	1.17	0.92	1.38
High	1.14	1.09	1.29	1.26	1.50
Average	1.05	1.02	1.13	1.02	1.16
Low	0.98	0.93	0.99	0.88	0.88
Last closing price	1.05	1.06	1.05	1.16	0.90
Traded volume (number of securities traded)	1,656,376	1,799,724	2,443,809	3,425,060	4,161,002
Turnover, in EUR millions	1.71	1.85	2.81	3.77	5.08
Listed volume (31 December), in thousands	32,375	32,375	30,757	30,757	30,757
Market capitalisation (31 December), in EUR millions	33.99	34.32	32.29	35.68	27.68

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

Ratio	2015	2014	2013	2012	2011
P/E	180.4	16.7	7.0	23.2	-*
P/B	0.9	0.9	1.0	1.3	1.1

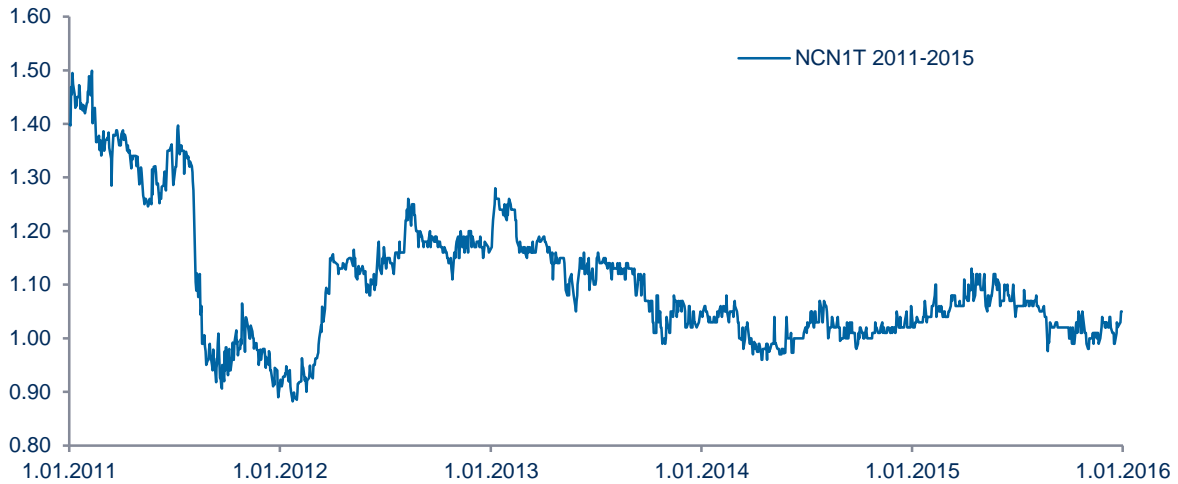
* The P/E ratio is not calculated when earnings per share are negative.

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

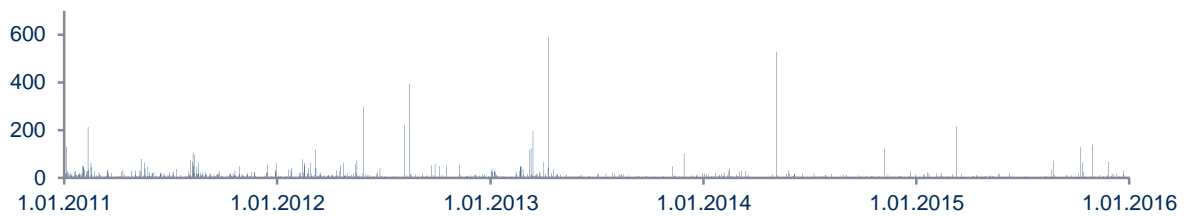
P/B = the period's last closing price of the share / (equity attributable to owners of the parent / number of shares outstanding)

Movements in the price and turnover of the Nordecon AS share in 2011-2015

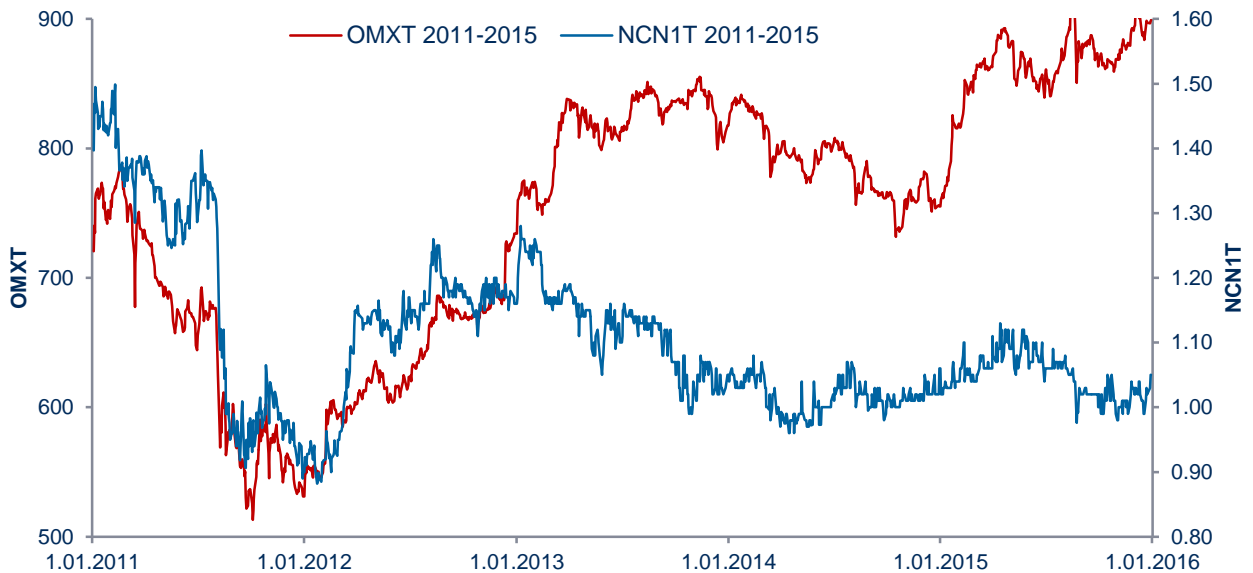
Movements in share price in euros



Daily turnover in thousands of euros



Movement of the share price compared with the OMX Tallinn index in 2011-2015



Index/equity	1 January 2011*	31 December 2015	+/-%
OMX Tallinn	698.38	898.99	28.73%
NCN1T	EUR 1.40	EUR 1.05	-24.95%

* Closing price on the NASDAQ OMX Tallinn Stock Exchange at 31 December 2010.

Shareholder structure

Largest shareholders in Nordecon AS at 31 December 2015

Shareholder	Number of shares	Ownership interest (%)
AS Nordic Contractors	16,507,464	50.99
Luksusjaht AS	3,815,255	11.78
ING Luxembourg S.A.	2,007,949	6.20
Rondam AS	1,000,000	3.09
SEB Pank AS clients	795,662	2.46
ASM Investments OÜ	519,600	1.60
State Street Bank and Trust Omnibus Account A Fund	447,365	1.38
Ain Tromp	378,960	1.17
SEB Elu- ja Pensionikindlustus AS	257,000	0.79
Genadi Bulatov	250,600	0.77

Shareholder structure of Nordecon AS at 31 December 2015

	Number of shareholders	Ownership interest (%)
Shareholders with interest exceeding 5%	3	68.97
Shareholders with interest from 1% to 5%	5	9.70
Shareholders with interest below 1%	1,620	16.33
Holder of own (treasury) shares	1	5.00
Total	1,629	100

Shareholder structure by shareholder category at 31 December 2015

Shareholder category based on business line and legal form	Number of shares	Ownership interest (%)
Companies	24,894,937	76.89
Financial institutions (banks, investment funds)	4,088,006	12.63
Individuals	3,069,040	9.48
Insurance companies	323,500	1.00
Total	32,375,483	100

Shareholder structure by country of shareholder's domicile at 31 December 2015

Shareholder's domicile	Number of shares	Ownership interest (%)
Estonia	29,108,696	89.91
Luxembourg	2,010,099	6.21
USA	575,588	1.78
Sweden	385,053	1.19
Finland	114,509	0.35
Lithuania	109,284	0.34
Belgium	20,300	0.06
Latvia	18,895	0.06
Isle of Man	14,000	0.04
Other countries	19,059	0.06
Total	32,375,483	100

Shares controlled by members of the council of Nordecon AS at 31 December 2015

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

* Companies controlled by the individual

Shares controlled by members of the board of Nordecon AS at 31 December 2015

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

* Companies controlled by the individual

Share option plan

The annual general meeting that convened on 27 May 2014 approved a share option plan aimed at motivating the executive management of Nordecon AS by including them among the company's shareholders to ensure consistency in the company's management and improvement of the company's performance, and enable the executive management to benefit from their contribution to growth in the value of the company's share. Under the share option plan, the company has granted options for acquiring up to 1,618,755 shares in Nordecon AS. In line with the plan, the chairman of the board of Nordecon AS may acquire up to 291,380 shares, both members of the board may acquire up to 259,000 shares each and all other members of the executive staff may acquire up to 129,500 shares each. An option may be exercised when three years have passed since the signature of the option agreement but not before the company's general meeting has approved the company's annual report for 2016. In the case of members of the company's board, exercise of the options is linked to achievement of the Group's EBITDA target for 2016 (from 4,491 thousand euros to 11,228 thousand euros).

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

Restrictions related to shares

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

Dividend policy**Dividends distributed by Nordecon AS in previous years**

Year of pay-out	Total dividends paid EUR '000	Number of shares, in thousands	Dividend per share EUR	Dividend pay-out ratio *
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%
2014	923	30,757	0.03	19.9%
2015	923	30,757	0.03	47.2%

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

The board proposes that in 2016 the company should distribute for 2015 a net dividend of 0.03 euros per share (923 thousand euros in aggregate). Own (treasury) shares do not grant the company any shareholder rights.

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

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

Reduction of share capital

During the preparation of the annual report, the Group's ultimate controlling party notified the Group's board of its intention to propose at the annual general meeting a motion for reducing the share capital of Nordecon AS by 971 thousand euros (0.03 euros per share). If the motion is approved, share capital will decrease from 20,692 thousand euros to 19,721 thousand euros. According to the motion, share capital will be reduced by reducing the book value of the shares so the number of the shares will remain the same, i.e., 32,375,483 shares including 1,618,755 own shares.

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

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

Members of the council and board of Nordecon AS

Council

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

Toomas Luman (chairman of the council) – representative of AS Nordic Contractors and 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 Group's activities through its board and council for 27 years. Besides construction companies, he has held senior positions at various other enterprises (Tallinna Kaubamaja Grupp AS, AS E-Betoonement, OÜ Väokivi, Eesti Energia AS, etc.). He is an active member of the community and has contributed to the development of the business environment, education and national defence. For over 20 years he has led the Estonian Chamber of Commerce and Industry and for many years has participated in the work of the professional association of Estonian construction enterprises. As chairman of the Chamber of Commerce, he was actively involved in preparatory activities for Estonia's accession to the EU and the euro area. Before Estonia joined the EU, Toomas Luman acted for four years as chairman of the consultative committee of the head of the Estonian state delegation in EU accession negotiations (the minister of foreign affairs). For ten years, Toomas Luman was chairman of the Board of Governors of Tallinn University of Technology. He is a major of the Estonian Defence Forces (in reserve) and chairman of the Board of Elders of the Estonian Reserve Officers' Association. He has been awarded the Order of the White Star of the Republic of Estonia (Fifth Class, Third Class and First Class) and he has received various awards from the Estonian Defence Forces, the Estonian National Defence League and other state and non-profit organisations. He has also received state awards from several other countries. He has an honorary doctorate degree from Tallinn University of Technology.

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

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

Andri Hõbemägi – representative of AS Nordic Contractors

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

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

Interests (exceeding 5%) in other companies: none

Vello Kahro – representative of AS Nordic Contractors

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

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

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

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

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

Membership in the governing bodies of other organisations: OÜ Gridio (board), OÜ Inventor (board)

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

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

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

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

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

Board

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

Jaano Vink, chairman of the board

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

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

Membership in the governing bodies of other organisations: none

Interests (over 5%) in other companies: 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 boards of various entities of Nordecon Group including the parent since 2005. He is a member of the Estonian Association of Civil Engineers and holds the highest qualification of Chartered Civil Engineer. He graduated from Tallinn University of Technology with a diploma in civil engineering in 1997. As a member of the board, Erkki Suurorg is responsible for managing the construction operations of Nordecon AS.

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

Interests (over 5%) in other companies: none

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

Description of the main risks

Business risks

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

Competition continues to be fierce in all segments of the construction market. In 2016, public investment is not likely to grow substantially compared with 2015. There is strong competitive pressure on builders' bid prices in a situation where input prices have not decreased noticeably. Competition is particularly aggressive in general building construction. We acknowledge the risks inherent in the performance 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 significantly and competition is tough is risky because negative developments in the economy may quickly render the contract onerous. Thus, in price-setting we currently prioritise a reasonable balance of contract performance risks and tight cost control over revenue growth.

Demand for construction services continues to be strongly influenced by the volume of public investment, which in turn depends on the co-financing received from the EU structural funds. Total support allocated to Estonia during the current EU budget period (2014-2020) amounts to 5.9 billion euros, exceeding the figure of the previous financial framework, but the amounts earmarked for construction work are substantially smaller. Moreover, these allocations are not expected to have an impact on the construction sector before the second half of 2016 or even later.

In the light of the above factors, we see opportunities for business growth compared with 2015 mostly in our chosen foreign markets. We expect that in Estonia infrastructure construction volumes will remain at the level of 2015 while investment in building construction may grow slightly. Our action plan foresees using our resources (including some of the labour released from the Infrastructure segment) to increase the share of contracts secured from the private sector. According to its business model, Nordecon operates in all segments of the construction market. Therefore, we are somewhat better positioned than companies that operate in one narrow (and in the current market situation particularly some infrastructure) segment.

The Group's business is also influenced by seasonal changes in weather conditions, which have the strongest impact on infrastructure construction where a lot of work is done outdoors (road and port construction, earthwork, etc.). To disperse the risk, we secure road maintenance contracts that generate year-round business. Our strategy is to counteract the seasonality of infrastructure operations with building construction that is less exposed to seasonal fluctuations. Our long-term goal is to be flexible and keep our two operating segments in relative balance (see also the chapter *Performance by business line*). In addition, where possible, our entities implement appropriate technical solutions that allow working efficiently also 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 insurance contracts are used. In addition, as a rule, subcontractors are required to secure performance of their obligations with a bank guarantee provided to a Group company or the Group retains part of the amount payable until the completion of the contract. To remedy construction deficiencies which may be detected during the warranty period, Group companies create warranty provisions based on their historical experience. At 31 December 2015, the Group's warranty provisions (including current and non-current ones) totalled 1,124 thousand euros (31 December 2014: 1,158 thousand euros).

In addition to managing the 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 2015, the Group did not incur any significant credit losses from operating activities. The credit risk exposure of receivables is low because the solvency of all prospective customers is assessed, the share of public sector customers is large and customers' settlement behaviour is consistently monitored. The main indicator of the realization of credit risk is settlement default that exceeds 180 days along with no activity on the part of the debtor that would confirm the intent to settle.

In 2015, impairment losses on receivables totalled 17 thousand euros (2014: 14 thousand euros).

The risks related to loans provided to related parties are described in notes 5 and 9 to the consolidated financial statements.

Liquidity risk

The Group remains exposed to higher than usual liquidity risk resulting from a mismatch between the long settlement terms demanded by customers (mostly 30 to 56 days) and increasingly shorter settlement terms negotiated by subcontractors (mostly 21 to 45 days). We counteract the differences in settlement terms by using factoring where possible.

At the reporting date, the Group's current assets exceeded its current liabilities 1.03-fold (31 December 2014: 1.02-fold). The key factors which influence the current ratio are the classification of the Group's loans to its Ukrainian associates as non-current assets and the banks' general policy not to refinance interest-bearing liabilities for a period exceeding twelve months.

Due to the complicated economic and political situation in Ukraine, we believe that the realization of our Ukrainian investment properties may take longer than previously expected. Accordingly, at the reporting date the Group's loans to its Ukrainian associates of 8,302 thousand euros were classified as non-current assets.

During the year, we continued to work with one of the world's leading consulting firms, Roland Berger Strategy Consultants, in the implementation of our financing program for 2014-2017. In line with the program, in 2015 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 6 million euros for financing its working capital needs. The Group repaid the short-term loans received under the financing program by the year-end, creating preconditions for gaining access to new limits in 2016.

At the reporting date, bank loans accounted for a significant share of our current liabilities. In accordance with IFRS EU, loan commitments have to be classified into current and non-current based on contract terms in force 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 2016 when the loans fall due. Thus, at the year-end, the loans were mostly classified as current. According to our assessment, we can refinance short-term loans of 11,388 thousand euros of which repayment of 10,788 thousand euros will be deferred to 2017. 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 6,332 thousand euros (31 December 2014: 8,802 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. In 2015, the Group's interest-bearing liabilities decreased by 2,920 thousand euros compared with the year before. Current and non-current bank loans decreased by 2,788 thousand euros and factoring liabilities by 710 thousand euros. Finance lease liabilities grew slightly. The Group uses factoring to counteract the differences in the settlement terms agreed with customers and subcontractors (see also the chapter *Liquidity risk*). At 31 December 2015, the Group's interest-bearing loans and borrowings totalled 20,813 thousand euros (31 December 2014: 23,733 thousand euros). Interest expense for 2015 amounted to 770 thousand euros, a decrease of 231 thousand euros compared with 2014.

The main source of the Group's interest rate risk is a possible rise in the variable component of floating interest rates (Euribor, EONIA or the creditor's own base rate). In the light of the Group's relatively heavy loan burden this would cause a significant rise in interest expense, which would have an adverse impact on profit. We mitigate the risk by pursuing a policy of entering, where possible, into fixed-rate contracts when the market interest rates are low. As regards loan products offered by banks, observance of the policy has proved difficult and most new contracts have a floating interest rate. In 2015, the Group did not use derivatives 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), Ukrainian hryvnias (UAH) and Swedish kronas (SEK).

The hryvnia has been weakening because the political and economic environment in Ukraine continues to be strained due to the conflict between Ukraine and Russia which broke out at the beginning of 2014 and at the beginning of 2015 the National Bank of Ukraine decided to discontinue determination of the national currency's indicative exchange rate. In 2015, the hryvnia weakened against the euro by around 27%. For the Group's Ukrainian subsidiaries, this meant additional foreign exchange losses on the translation of their euro-denominated loans into the local currency. Relevant exchange losses totalled 574 thousand euros (2014: 1,299 thousand euros). Exchange gains and losses on financial instruments have been recognised in *Finance income* and *Finance costs* respectively. Translation of receivables and liabilities from operating activities did not give rise to any exchange gains or losses.

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

In 2016, the hryvnia has continued to weaken against the euro. From the beginning of the year until the date of release of this report, the exchange rate has weakened by around 9%.

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

Outlooks of the Group's geographical markets

Estonia

Processes and developments characterising the Estonian construction market

- In 2016, public investments will not grow significantly and the extent to which they can be realised is still unclear. Although in the 2014-2020 EU budget period the support allocated to Estonia will increase to 5.9 billion euros (2007-2013: 4.6 billion euros), the share of support that will influence the construction market will not increase. Instead, compared with the previous period, there will be a rise in allocations to intangible areas.

Investments made by the largest public sector customers (e.g., state-owned real estate company Riigi Kinnisvara AS and National Road Administration) that reach signature of a construction contract in 2016 will not increase substantially. As a result, the Estonian construction market (particularly infrastructure construction segments) will remain in relative stagnation. To some extent, the situation will be improved by the positive level of private investments in building construction.

- The long and painful process of construction market consolidation will continue, albeit slowly. In particular, this applies to general contracting in building construction where the number of medium-sized construction service intermediaries (annual turnover of around 15-40 million euros) is too large. Based on recent years' experience it is likely that stiff competition and insufficient demand will cause some general contractors to go slowly out of business or shrink in size rather than merge or exit the market. According to our assessment, in recent years the process has been slowed down by the customers' (particularly public sector customers') increasing desire to apply less stringent tendering requirements to increase competition and lower the price even though this increases the risks related to security, quality, adherence to deadlines and the builder's liability.

Competition is tough in all segments of the construction market. The average number of bidders for a contract has increased and there is a wide gap between the lowest bids made by the winners and the average bids. At the same time it is clear that in the current market situation the prices of construction inputs are not going to decrease noticeably and in order to succeed companies need to be efficient. Regrettably, the number of materials producers, suppliers, and subcontractors that are trying to survive or succeed in the difficult environment by dishonest means, e.g., by supplying goods with concealed defects or considerably lower quality than the one recorded in the product certificate, has been increasing quite rapidly. If the trend continues, both construction service providers and end-customers will have to implement strict and thorough quality control measures to make sure that the outcome meets their expectations. Unfair competition is putting visible pressure on prices and the quality of the construction service. Unfortunately, the situation is worsened by the customers' (including state institutions' and state-owned companies') increasing tendency to lower the bidders' qualification requirements and prioritise quality more on paper than in practice.

- In new housing development, the success of a project depends on the developer's ability to control the input prices included in the business plan and, thus, set sales prices that are affordable for prospective buyers. The prices of new apartments are relatively high compared to the standard of living and the banks' lending terms are strict. This has held back rapid growth of the housing market but in the second half of 2015 the supply of new housing grew significantly, slowing down the sale of apartments with relatively high sales prices. Similarly to previous periods, successful projects include those that create or fill a niche. In Tallinn and Tartu, the picture is encouraging but in the rest of the country activity is still relatively sluggish.
- There is a growing contrast between the stringent terms of public contracts, which require the builder to agree to extensive obligations, strict sanctions, various financial guarantees, long settlement terms, etc., and the modest tendering requirements. Lenient qualification requirements and the precondition of making a low bid have made it easier for an increasing number of builders to win a contract but have heightened the contract performance risks taken by customers in respect of funding, deadlines and quality.
- The prices of construction inputs will remain relatively stable but growth in housing development has made it unlikely that the prices charged by local building construction subcontractors would decline any further. Certainly there are areas where major changes in the environment may trigger more abrupt price changes. The rise in housing construction is lengthening the supply periods of various essential materials and services, making it impossible to carry out all processes within the former optimistic timeframes. As a result, activities have to be scheduled over longer periods or postponed.
- Shortage of skilled labour (including project and site managers) will persist but so far it has weakened the quality of the construction process/service rather than the companies' performance capacity. Labour migration to the Nordic countries will remain steady and despite a comparative decline in construction volumes, e.g., in Finland, the number of job seekers that will return to the Estonian construction market is not expected to increase considerably. This will sustain pressure for a wage increase, particularly in the case of younger and less experienced workforce whose mobility and willingness to change jobs is naturally higher.

Ukraine

In Ukraine, the Group provides general contracting and project management services to private sector customers in the segment of building construction. Political and economic instability continues to impede the adoption of business decisions but construction activity in Kiev and the surrounding area has not halted. In 2016, the Group will continue its operations in the Kiev region and our current Ukrainian order book is larger than a year ago. Despite the armed conflict in eastern Ukraine, for Nordecon the market situation in Kiev has not deteriorated compared with a year or two ago. Hard times have reduced the number of inefficient local (construction) companies and when the economy normalises we will have considerably better prospects for increasing our operations and profitability. We assess the situation in the Ukrainian construction market regularly and critically and are ready to restructure our operations as and when necessary. Should the crisis spread to Kiev (which at the date of release of this report is highly unlikely), we can suspend our operations immediately. We continue to seek opportunities for exiting our two real estate projects that have been put on hold or signing a construction contract with a prospective new owner.

Finland

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

Sweden

In July 2015, Nordecon Group acquired a 100% stake in SWENCN AB, a company registered in the Kingdom of Sweden, and expanded to the Swedish market where we intend to offer mainly construction of residential and non-residential buildings, particularly in central Sweden. In October 2015, we signed the first contract for the construction of a five-storey apartment building in Stockholm. The cost of the work amounts to around 8.4 million euros. We will sustain efforts aimed at increasing our operations in Sweden.

Latvia and Lithuania

It is not likely that we will enter the Latvian construction market in 2016. However, we do not rule out the possibility of carrying out certain projects in Latvia through our Estonian entities, with the involvement of partners where necessary. Undertaking a project assumes that it can be performed profitably. The decision does not change our strategy for the future, i.e., the goal to operate in our neighbouring construction market through local subsidiaries.

The operations of our Lithuanian subsidiary, Nordecon Statyba UAB, have been suspended. We continue to monitor developments in the Lithuanian construction market that have been quite positive in the Baltic context. 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 goal to operate in the Lithuanian construction market through local subsidiaries.

Corporate governance report

Nordecon AS has observed the Corporate Governance Code (CGC) promulgated by the NASDAQ OMX Tallinn Stock Exchange since the flotation of its shares on the NASDAQ OMX Tallinn Stock Exchange on 18 May 2006. This report provides an overview of the governance of Nordecon AS in 2015 and its compliance with CGC. It is recommended that an issuer comply with CGC or explain any non-compliance in its corporate governance report. In 2015, Nordecon AS observed CGC unless indicated otherwise in this report.

General meeting

Exercise of shareholder rights

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

Shareholders may send questions about the agenda items before the general meeting to the company's registered address or e-mail address that are included in the notice of the general meeting. The company replies to all relevant questions before the general meeting on its website or during the meeting when the relevant agenda item is being discussed. In 2015, shareholders did not ask any questions about the agenda items before the general meeting. All questions and answers are available on the website until information about the next general meeting is published.

In 2015, the company was represented at the general meeting by all three members of the board who attended the meeting and were available to shareholders during the meeting. Chairman of the board, Jaano Vink, gave a presentation on the company's financial performance and answered shareholders' questions.

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

In 2015, Nordecon AS complied with the subsections of section 1.1 of the CGC that relate to shareholder rights.

Calling of a general meeting and information to be published

The annual general meeting of Nordecon AS took place on 20 May 2015. The meeting was held in the Conference Centre of the Radisson Blu Hotel Olümpia in Tallinn and it started at 10.00 am. The meeting was called by the board of Nordecon AS.

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

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

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

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

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

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

In 2015, Nordecon AS complied with the subsections of section 1.2 of CGC that relate to calling a general meeting and information to be published.

Conduct of a general meeting

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

As a rule, a general meeting is attended by all members of the board, the chairman of the council and, where possible, members of the council and at least one of the auditors. A general meeting is also attended by a candidate for a member of the council if the candidate has not been a member of the council before and the auditor candidate. In 2015, the general meeting was attended by chairman of the board Jaano Vink, members of the board Avo Ambur and Erkki Suurorg, member of the council Andri Hõbemägi, candidate for member of the council Vello Kahro and the company's auditor Andres Root.

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

In 2015, Nordecon AS complied with the subsections of section 1.3 of CGC, except for 1.3.3 and 1.3.2. The company did not consider it practicable to make the annual general meeting available to observers and participants via the Internet. Chairman of the council and candidate for member of the council Sandor Liive did not attend the general meeting.

Board

Responsibilities of the board

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

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

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

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

In 2015, the board and council of Nordecon AS exchanged information in accordance with relevant requirements. The board informed the council of the Group's performance and financial position on a regular basis.

In 2015, Nordecon AS complied with the subsections of section 2.1 of CGC that relate to responsibilities of the board.

Composition and remuneration of the board

Composition of the board

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

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

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

In 2015, the board had the following members:

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

Remuneration of the board

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

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

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

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

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

Payment of benefits is justified because board members are subject to a 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 contract (six-fold average monthly service fee together with performance-related pay).

A board member is not eligible for termination benefits if the service contract is terminated at the board member's request, the board member is removed due to breach of the law, the board member breaches the service

contract, or the board member's activities have caused direct damage to the company. Nor are any termination benefits paid when the parties agree to extend a board member's service contract for another term of office.

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

An option may be exercised when three years have passed since the signature of the option agreement but not before the company's general meeting has approved the company's annual report for 2016 in accordance with the procedure specified in the option agreement and the terms and conditions of the option plan. The share options may not be transferred. Exercise of options by members of the board is linked to achievement of the Group's EBITDA target for 2016 (from 4,491 thousand euros to 11,228 thousand euros).

In 2015, the service fees of the members of the board of Nordecon AS amounted to 322 thousand euros and associated social security charges totalled 106 thousand euros (2014: 262 thousand euros and 87 thousand euros respectively). Expenses on the provision for board members' performance-related pay, made based on the Group's performance indicators, totalled 188 thousand euros and the provision for associated social security charges amounted to 62 thousand euros (2014: 387 thousand euros and 128 thousand euros respectively).

In 2015, Nordecon AS complied with the subsections of section 2.2 of CGC, except for 2.2.7, that relate to the composition and remuneration of the board. The company does not disclose the individual remuneration of each member of the board because it believes the information has little significance but is highly sensitive in an environment of stiff competition.

Conflicts of interest

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

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

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

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

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

In 2015, Nordecon AS complied with the subsections of section 2.3 of CGC that relate to conflicts of interest.

Council

Responsibilities of the council

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

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

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

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

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

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

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

In 2015, Nordecon AS complied with the subsections of section 3.1 of CGC that relate to the responsibilities of the council.

Composition and remuneration of the council

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

According to the articles of association, the council has three to seven members. The 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 connection with the expiry of the term of office of five members of the council of Nordecon AS, the annual general meeting that convened on 20 May 2015 elected new members of the council for the term specified in the articles of association (five years). The council has five members. Toomas Luman, Meelis Milder, and Andri Hõbemägi whose term of office will end in 2018 will continue as members of the council. Vello Kahro and Sandor Liive were elected as new members of the council.

In 2015, the council had the following members:

Name	Position	Beginning of term of office	End of term of office
Toomas Luman	Chairman of the Council, representative of AS Nordic Contractors	9 January 2006	20 May 2020
Andri Hõbemägi	Member of the Council, representative of AS Nordic Contractors	25 May 2013	24 May 2018
Vello Kahro	Member of the Council, representative of AS Nordic Contractors	20 May 2015	20 May 2020
Sandor Liive	Member of the Council, independent	20 May 2015	20 May 2020
Meelis Milder	Member of the Council, independent	9 January 2006	20 May 2020
Alar Kroodo	Vice-chairman of the Council, representative of small shareholders	9 January 2006	13 May 2015
Tiina Mõis	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 a resolution adopted by the general meeting on 20 May 2015, from 1 June 2015 the chairman's basic monthly service fee is 7,490 euros and the basic monthly service fee of other council members is 1,000 euros. Previously, the chairman's basic monthly service fee was 5,700 euros, the vice-chairman's basic monthly service fee was 2,850 euros and the basic monthly service fee of other council members was 800 euros. In addition, based on a resolution adopted by the general meeting on 28 May 2012, the company has created a performance-related pay system for the chairman and vice-chairman of the council. Performance-related pay is linked to achievement of Nordecon AS's targets for the financial year and it is calculated and paid on the same basis as the performance-related pay of the members of the board of Nordecon AS. The performance-related pay provided to the chairman

and vice-chairman of the council may not exceed two thirds and one third respectively of the performance-related pay calculated for a member of the board.

In 2015, the service fees of the members of the council of Nordecon AS amounted to 139 thousand euros and associated social security charges totalled 46 thousand euros (2014: 141 thousand euros and 47 thousand euros respectively). Expenses on the provision for council members' performance-related pay, made based on the Group's performance indicators, totalled 37 thousand euros and the provision for associated social security charges amounted to 12 thousand euros (2014: 113 thousand euros and 37 thousand euros respectively).

In 2015, Nordecon AS complied with the subsections of section 3.2 of CGC that relate to council members' responsibilities.

Conflicts of interest

Members of the council avoid conflicts of interest. In their activity as council members, they 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 2015, Nordecon AS complied with the subsections of section 3.3 of CGC that relate to council members' responsibilities.

Cooperation of the board and the council

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

In 2015, 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 2014-2017. The board observes the council's strategic instructions and discusses strategic management issues with the council on a regular basis.

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

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

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

In 2015, Nordecon AS complied with the subsections of sections 4.1 to 4.3 of CGC that relate to cooperation between the board and the council.

Disclosure of information

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

In disseminating information, Nordecon AS endeavours to treat all shareholders as equally and fairly as possible and to communicate all significant events without any undue delay. Observance of the equal treatment principle does not revoke the right to postpone the disclosure of inside information or the right to provide unpublished inside information to persons entitled to it. The main information channels that the company uses for notifying shareholders and investors are the information system of the NASDAQ OMX Tallinn Stock Exchange and the

company's website at www.nordecon.com. In those channels, information is released simultaneously in Estonian and in English.

The company discloses information in accordance with the rules of the NASDAQ OMX Tallinn Stock Exchange and the provisions of the Estonian Securities Act. In 2015, the company's threshold for notifying of significant construction contracts was 3.2 million euros. In 2015, Nordecon AS made 29 stock exchange announcements that were released concurrently via the information system of the NASDAQ OMX Tallinn Stock Exchange and the company's website.

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

Meetings with investors and financial analysts

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

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

In 2015, Nordecon AS complied with chapter 5 of CGC that relates to disclosure of information, except for the following sections:

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

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

Financial reporting and auditing

Financial reporting

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

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

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

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

In 2015, Nordecon AS complied with the subsections of section 6.1 of CGC, except for 6.1.1, that relate to financial reporting.

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

Auditing

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

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

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




In the reporting period, the auditor's services comprised the agreed audit services as well as tax advice, translation services and other work including agreed-upon procedures. Altogether, the fees Nordecon AS paid to the auditor in 2015 totalled 40 thousand euros.

The auditor provided the audit committee formed by the council with a written memorandum on the company's audit of 2015, the auditor's findings and other significant matters that were discussed with the board.

In 2015, Nordecon AS complied with the subsections of section 6.2 of CGC that relate to auditing.

Management's confirmation and signatures

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

Jaano Vink	Chairman of the Board		21 April 2016
Avo Ambur	Member of the Board		21 April 2016
Erkki Suurorg	Member of the Board		21 April 2016

Consolidated financial statements

Consolidated statement of financial position

EUR '000			
As at 31 December	Note	2015	2014
ASSETS			
Current assets			
Cash and cash equivalents	8	6,332	8,802
Trade and other receivables	9	17,503	23,235
Prepayments	10	1,599	1,201
Inventories	11	23,603	24,788
Total current assets		49,037	58,026
Non-current assets			
Investments in equity-accounted investees	12	1,179	694
Other investments	13	26	26
Trade and other receivables	9	10,516	11,211
Investment property	14	4,929	3,549
Property, plant and equipment	15	9,623	9,319
Intangible assets	16	14,609	14,633
Total non-current assets		40,882	39,432
TOTAL ASSETS		89,919	97,458
LIABILITIES			
Current liabilities			
Loans and borrowings	17	15,715	20,588
Trade payables	19	22,538	26,267
Other payables	20	5,475	7,542
Deferred income	21	3,233	1,786
Provisions	22	825	799
Total current liabilities		47,786	56,982
Non-current liabilities			
Loans and borrowings	17	5,098	3,145
Trade payables	19	104	109
Other payables	20	96	96
Provisions	22	768	759
Total non-current liabilities		6,066	4,109
TOTAL LIABILITIES		53,852	61,091
EQUITY			
Share capital	23	20,692	20,692
Own (treasury) shares	25	-1,582	-1,582
Share premium	25	547	547
Statutory capital reserve	23	2,554	2,554
Translation reserve	23	1,358	771
Retained earnings		10,970	11,714
Total equity attributable to owners of the parent		34,539	34,696
Non-controlling interests		1,528	1,671
TOTAL EQUITY		36,067	36,367
TOTAL LIABILITIES AND EQUITY		89,919	97,458

The notes on pages 44-96 are an integral part of these consolidated financial statements.

Consolidated statement of comprehensive income

EUR '000	Note	2015	2014
Revenue	26	145,515	161,289
Cost of sales	29	-136,484	-151,476
Gross profit		9,031	9,813
Marketing and distribution expenses		-412	-558
Administrative expenses	30	-5,026	-5,656
Other operating income	31	464	792
Other operating expenses	31	-124	-376
Operating profit		3,933	4,015
Finance income	32	655	738
Finance costs	32	-4,383	-2,301
Net finance costs		-3,728	-1,563
Share of profit of equity-accounted investees	12	226	85
Profit before income tax		431	2,537
Income tax expense	33	-257	-239
Profit for the year		174	2,298
Other comprehensive income:			
Items that may be reclassified subsequently to profit or loss			
Exchange differences on translating foreign operations		587	1,069
Total other comprehensive income		587	1,069
TOTAL COMPREHENSIVE INCOME		761	3,367
Profit attributable to:			
- Owners of the parent	24	179	1,956
- Non-controlling interests		-5	342
Profit for the year		174	2,298
Total comprehensive income attributable to:			
- Owners of the parent		766	3,025
- Non-controlling interests		-5	342
Total comprehensive income for the year		761	3,367
Earnings per share attributable to owners of the parent:			
Basic earnings per share (EUR)	24	0.01	0.06
Diluted earnings per share (EUR)	24	0.01	0.06

The notes on pages 44-96 are an integral part of these consolidated financial statements.

Consolidated statement of cash flows

EUR '000	Note	2015	2014
Cash flows from operating activities			
Cash receipts from customers ¹		179,119	192,701
Cash paid to suppliers ²		-151,004	-163,690
VAT paid		-5,407	-5,429
Cash paid to and for employees		-19,921	-19,384
Income tax paid		-103	-184
Net cash from operating activities		2,684	4,014
Cash flows from investing activities			
Paid on acquisition of property, plant and equipment		-480	-355
Paid on acquisition of intangible assets		-21	-13
Proceeds from sale of property, plant and equipment		337	189
Acquisition of investments in subsidiaries	7	-8	-737
Acquisition of investments in associates	12	-355	-44
Cash from liquidation of investments in associates		0	1
Loans provided		-291	-292
Repayment of loans provided		124	227
Dividends received		108	4
Interest received		366	7
Net cash used in investing activities		-220	-1,013
Cash flows from financing activities			
Proceeds from loans received		2,099	7,815
Repayment of loans received		-3,449	-11,194
Finance lease principal paid		-1,726	-1,432
Interest paid		-767	-852
Dividends paid		-1,091	-940
Other payments made		0	-168
Net cash used in financing activities		-4,934	-6,771
Net cash flow		-2,470	-3,770
Cash and cash equivalents at beginning of year		8,802	12,575
Effect of movements in foreign exchange rates		0	-3
Decrease in cash and cash equivalents		-2,470	-3,770
Cash and cash equivalents at end of year		6,332	8,802

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

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

The notes on pages 44-96 are an integral part of these consolidated financial statements.

Consolidated statement of changes in equity

EUR '000	Equity attributable to owners of the parent							Non-controlling interests	Total
	Share capital	Own shares	Share premium	Capital reserve	Translation reserve	Retained earnings	Total		
Balance at									
31 December 2013	19,657	0	0	2,554	-298	10,681	32,594	2,332	34,926
Profit for the year	0	0	0	0	0	1,956	1,956	342	2,298
Other comprehensive income	0	0	0	0	1,069	0	1,069	0	1,069
Changes in non-controlling interests	0	0	0	0	0	0	0	-922	-922
Transactions with owners									
Increase of share capital	1,035	-1,582	547	0	0	0	0	0	0
Dividend distribution	0	0	0	0	0	-923	-923	-81	-1,004
Total transactions with owners	1,035	-1,582	547	0	0	-923	-923	-81	-1,004
Balance at									
31 December 2014	20,692	-1,582	547	2,554	771	11,714	34,696	1,671	36,367
Profit for the year	0	0	0	0	0	179	179	-5	174
Other comprehensive income	0	0	0	0	587	0	587	0	587
Transactions with owners									
Dividend distribution	0	0	0	0	0	-923	-923	-138	-1,061
Total transactions with owners	0	0	0	0	0	-923	-923	-138	-1,058
Balance at									
31 December 2015	20,692	-1,582	547	2,554	1,358	10,970	34,539	1,528	36,067

Further information on share capital and other equity items is provided in note 23.

The notes on pages 44-96 are an integral part of these consolidated financial statements.

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

The consolidated financial statements of Nordecon AS (also referred to as 'the company' and 'the parent') as at and for the year ended 31 December 2015 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 Ukraine, Finland, Sweden and Lithuania.

NOTE 2. Statement of compliance and basis of preparation

Statement of compliance

The consolidated financial statements of Nordecon AS Group as at and for the year ended 31 December 2015 have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS EU). The parent company's primary financial statements are presented in note 38 to the consolidated financial statements in accordance with the requirements of the Republic of Estonia Accounting Act.

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

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

The board authorised these consolidated financial statements for issue on 20 April 2016.

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 note 5.

Functional and presentation currency

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

Use of significant accounting estimates and judgements

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

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

In 2015, the Group conducted most of its business in Estonia where the year was characterised by slow but steady economic growth. Estonia's gross domestic product (GDP) grew by 1.1% (2014: 2.1%). The main drivers of GDP growth were agriculture, forestry and fishing and, to a lesser extent, scientific and technical activities and trade.

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 KPMG, Tallinn

The rise in trade was underpinned by a steady uptrend in retail trade. GDP growth was strongly undermined by transportation and storage, construction, and manufacturing.

Volumes in the local construction market decreased and the sector's value added declined primarily through shrinkage in the construction of infrastructure assets and the renovation of buildings. In 2015, the Estonian construction companies' total output (in current prices) was 2.0 billion euros, 5% down from 2014. Building and infrastructure construction accounted for 1.3 billion euros and 0.7 billion euros of the total respectively. Compared with 2014, building construction contracted by 2% and infrastructure construction by one tenth. The real estate market sustained growth: the total value of real estate transactions conducted in 2015 was 2.7 billion euros (2014: 2.3 billion euros). The real estate market was active in the segment of completed housing but interest in plots without buildings and relevant transaction activity continued to be relatively low.

Demand for construction services continues to be strongly influenced by public investment, which in turn depends on the co-financing received from the EU structural funds. In 2016, public investment is not expected to increase substantially.

Thus, management has had to make estimates and exercise judgement in an environment where reliable broad-based information on the market prices of some assets is often unobtainable and, due to global economic developments, the outlook of the construction and real estate markets is somewhat 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 regular control by different levels of management that analyse any deviations from the budget and revise the estimate as and when necessary.

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

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

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

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

The Group is engaged in real estate development in Estonia and apartments that are built for sale are classified as inventories until they are sold. 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 the adoption of a detailed design plan have been started. The properties are located in different regions across Estonia (Tallinn, Tartu, Pärnu and Narva). Although in 2015 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

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a property is the sum that remains from the estimated revenue from the sale of the development project planned on the property after the deduction of the estimated construction and other development costs and the developer's reasonable profit margin.

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, there was no need to write the properties down. A sensitivity analysis of the valuations is presented in the notes to the consolidated financial statements.

Classification (J) and measurement (E) of investment properties (notes 5 and 14)

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.

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 regions where the properties are located (Pärnu and Tartu), appraisers stated in their reports that the market values of the properties could not be determined reliably. Although the sales comparison method used by the appraisers was the most appropriate for making the appraisal, the number of transactions with properties without buildings (plots) was too small in those regions. Consequently, it was not possible to obtain sufficient reliable information as required by the valuation standards and value the properties reliably using the sales comparison method. Thus, at the reporting date the Group had no need for adjusting the fair values of its investment properties using 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.

Therefore, 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. A sensitivity analysis of the valuations is presented in the notes to the consolidated financial statements.

Provisions and contingent liabilities (notes 22 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 up to 0.4% of total contract costs. Depending on the complexity of the project, the Group may recognise a warranty provision that exceeds historical data.

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

based on the actual quantity extracted during the period. Management reassesses the Group's rehabilitation obligations and the quantities to be extracted once a year.

Determination of the useful lives of items of property, plant and equipment (note 15) (J)

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

Measurement of goodwill (note 16) (E)

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

The projected net cash flows, which include both working capital investments and capital expenditures incurred to maintain assets in the state they are in at the time the estimate is made, are discounted at the weighted average cost of capital (both debt and equity capital). The net operating cash flows of CGUs do not depend on the capital structure of the specific entity. Therefore, in determining the discount rate, the proportions of debt and equity capital have been identified based on the industry's average ratios in the Damodaran database. The discount rates used for estimating the value in use of the Group's CGUs range from 8.8% to 10.7%.

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.

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Business combinations of entities under common control

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

Subsidiaries

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

Associates and joint ventures

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

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

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

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

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

Joint operations

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

Transactions eliminated on consolidation

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

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

Translation of the financial statements of foreign subsidiaries

The assets and liabilities of foreign subsidiaries (including fair value adjustments arising on business combinations) are translated to euros at exchange rates ruling at the reporting date. The income and expenses of foreign

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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)	Swedish krona (SEK)	Ukrainian hryvnia (UAH)*
1 euro (EUR)	31 December 2015	-	9.1895	26.2231
1 euro (EUR)	31 December 2014	3.4528	-	19.2329

* The European Central Bank does not publish the exchange rate for UAH. Therefore, the UAH exchange rate as at 31 December 2014 is based on the information published by the Central Bank of Ukraine and the UAH exchange rate as at 31 December 2015 is based on the information published by the Ukrainian Ministry of Finance. In 2015, the Central Bank of Ukraine ceased determining the indicative exchange rate for UAH.

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

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

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

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

Loans and receivables

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

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

Available-for-sale financial assets

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

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

Cash and cash equivalents

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

Financial liabilities

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

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

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

Factoring

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

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

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.

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

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

Investment property

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

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

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

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

Property, plant and equipment

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

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

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

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

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

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

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

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

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

The carrying amount of an item of property, plant and equipment is derecognised when the item is disposed of or when no future economic benefits are expected from its use or disposal. Gains and losses arising from

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derecognition of items of property, plant and equipment are recognised in other operating income and other operating expenses respectively in the period in which the item is derecognised.

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

Borrowing costs

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

Intangible assets

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

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

<u>Asset class</u>	<u>Useful life in years</u>
Licences and patents	3-5
Trademarks	5

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

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

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

Goodwill

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

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, 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 on loans and receivables and held-to-maturity investments measured at amortised cost is recognised when the carrying amount of the asset exceeds its recoverable amount. 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 unless the recoverability of the item is supported by an additional agreement or the debtor has provided sufficient collateral. If impairment of an asset becomes obvious sooner, an impairment loss is recognised earlier. Assets that are not individually significant are assessed for impairment collectively, in groups of items with similar risk characteristics.

Available-for-sale financial assets

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

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

Impairment of non-financial assets

The carrying amounts of the Group's non-financial assets other than investment property, inventories and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. An impairment loss is recognised if the carrying amount of an asset exceeds its recoverable amount. The recoverable amount of an asset or its cash-generating unit (CGU) is the higher of its fair value less costs to sell and the present value of its expected future cash flows (value in use).

Value in use is calculated by estimating the future cash flows expected to be derived from the asset and by applying to those cash flows an appropriate pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped into the smallest group of assets that generates cash inflows that are largely independent of the cash inflows of other assets or asset groups (a CGU). Where necessary, the fair value of an asset is determined with the assistance of independent experts. Impairment losses on assets including impairment losses on CGUs are recognised in profit or loss. An impairment loss for a CGU is recognised by first reducing the carrying amount of any goodwill allocated to the CGU and then the carrying amounts of other assets of the unit on a pro rata basis.

Goodwill is tested for impairment at least at each financial year-end and whenever events or changes in estimates indicate that goodwill may be impaired. Impairment is determined by estimating the recoverable amount of the CGU to which goodwill has been allocated.

For the purpose of impairment testing, goodwill is allocated to the CGUs or groups of CGUs that are expected to benefit from the synergies of a business combination. Impairment losses on goodwill are recognised in profit or loss.

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

Provisions and contingent liabilities

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

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

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

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

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

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

Short-term employee benefits

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

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

Liabilities under profit-sharing and bonus plans result from employee service and not from transactions with the company's 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-related pay) only when it has a present legal or constructive obligation to make such payments and a reliable estimate can be made of the amount of the obligation.

Share-based payments

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

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

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 leased under finance leases in the statement of financial position and measures them at the lower of fair value and the present value of the minimum lease payments. Assets leased under finance leases are depreciated similarly to owned assets. If it is not certain that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of its lease term and useful life. Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

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

Statutory capital reserve

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

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

Earnings per share

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

Income tax

Income tax assets and liabilities and income tax income and expense comprise current and deferred items. Current tax (recoverable or payable) 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.

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

Under the Estonian Income Tax Act, corporate income tax is not levied on profit earned but on profit distributions. In 2015, the income tax rate was 20% (2014: 21%) and the amount of tax payable on a dividend distribution was calculated as 20/80 (2014: 21/79) of the amount of the net distribution. The income tax payable on dividends is recognised in profit or loss in the period in which the dividends are declared.

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

Foreign subsidiaries, associates and joint ventures

In Ukraine, Finland, Sweden and Lithuania corporate profits are subject to income tax. In 2015, the income tax rates were as follows: Ukraine 19% (2014: 19%), Finland 20% (2014: 20%), Sweden 22% and Lithuania 15% (2014: 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 (see also the policy *Construction contracts in progress*).

Revenue from rendering of other services

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

Revenue from sale of goods purchased and finished goods

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

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

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

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

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

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

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

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

NOTE 4. 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 2015 had an impact on the Group's financial statements:

- Amendments to IFRS 3 *Business Combinations* (with consequential amendments to other standards), which clarify that when contingent consideration is a financial instrument its classification as a liability or equity is determined by reference to IAS 32, rather than to any other standard. The amendments also clarify that contingent consideration that is classified as an asset or a liability shall be measured at fair value at each reporting date.

At the reporting date, the Group had no contingent consideration relating to business combinations.

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 2015 had no impact on the Group's financial statements:

- Amendments to IAS 19 – *Defined Benefit Plans: Employee Contributions* (Effective for annual periods beginning on or after 1 February 2015; to be applied retrospectively. Earlier application is permitted.)
- IFRIC 21 *Levies* (Effective for annual periods beginning on or after 17 June 2014; to be applied retrospectively. Earlier application is permitted.)

New standards, amendments and interpretations as at 31 December 2015

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 IFRS 11 – *Accounting for Acquisitions of Interests in Joint Operations* (Effective for annual periods beginning on or after 1 January 2016; to be applied prospectively. Early application is permitted.) These amendments require business combination accounting to be applied to acquisitions of interests in a joint operation that constitutes a business.

The Group expects that the amendments, when initially applied, will not have a material impact on its consolidated financial statements because the Group has an existing accounting policy to account for acquisitions of joint operations that is consistent with that set out in the amendments.

- Amendments to IAS 1 – *Disclosure Initiative*. (Effective for annual periods beginning on or after 1 January 2016. Early application is permitted.) The amendments include the following five, narrow-focus improvements to the disclosure requirements contained in the standard. The guidance on materiality in IAS 1 has been amended to clarify that:
 - Immaterial information can detract from useful information.
 - Materiality applies to the whole of the financial statements.
 - Materiality applies to each disclosure requirement in an IFRS.

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

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

The Group expects that the amendments, when initially applied, will not have a material impact on the presentation of its consolidated financial statements.

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:

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- Amendments to IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets – Clarification of Acceptable Methods of Depreciation and Amortisation* (Effective for annual periods beginning on or after 1 January 2016; to be applied prospectively. Early application is permitted.)
- Amendments to IAS 16 *Property Plant and Equipment* and IAS 41 *Agriculture* (Effective for annual periods beginning on or after 1 January 2016. Early application is permitted.)
- Amendments to IAS 19 – *Defined Benefit Plans: Employee Contributions* (Effective for annual periods beginning on or after 1 February 2015; to be applied retrospectively. Early application is permitted.)
- Amendments to IAS 27 – *Equity Method in the Separate Financial Statements* (Effective for annual periods beginning on or after 1 January 2016 and apply retrospectively. Early application is permitted.)

Annual Improvements to IFRSs

Annual Improvements to IFRSs introduce six amendments to six standards and consequential amendments to other standards and interpretations. The amendments are applicable to annual periods beginning on or after 1 February 2015, with earlier adoption permitted. Another four amendments to four standards are applicable to annual periods beginning on or after 1 January 2016, with earlier adoption permitted. None of these amendments is expected to have a significant impact on the Group's consolidated financial statements.

By 31 December 2015, some new and revised International Financial Reporting Standards, amendments to standards and interpretations had been published which have not yet been adopted by the EU, for example:

- Amendments to IFRS 15 *Revenue from Contracts with Customers – Effective Date of IFRS 15* (effective for annual periods beginning on or after 1 January 2018). The new standard introduces the core principle that revenue must be recognised when the goods or services are transferred to the customer, at the transaction price. Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognised if they are not at significant risk of reversal. The costs incurred to secure contracts with customers have to be capitalised and amortised over the period when the benefits of the contract are consumed.
- Standard IFRS 16 *Leases* (effective for annual periods beginning on or after 1 January 2019). The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognise: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the income statement. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.
- Amendments to IAS 7 – *Disclosure Initiative* (effective for annual periods beginning on or after 1 January 2017). The amendments to IAS 7 require disclosure of changes in liabilities from financing activities between the opening and closing balances.

The Group is assessing the impact of the new pronouncements on its consolidated financial statements.

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

NOTE 5. Financial risk management

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

- Credit risk
- Liquidity risk
- Market risk

The Group's risk management process is based on the premise that effective risk management is underpinned by continuous identification and accurate assessment of the potential impacts of the risks faced by the Group as well

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as adherence to the risk management policies in place. The main objective of relevant activities is to prevent and manage risks which could have an adverse impact on the adequacy of working capital required for carrying out the Group's core business and which could jeopardise the Group's compliance with the conditions imposed by providers of debt capital, adequacy of the Group's equity and the Group's ability to continue as a going concern.

The Group establishes risk management policies and implements action plans aimed at identifying and analysing risks, monitoring risk levels and dispersing risks across time, activities and geographical areas. In financial risk management, the key role is played by the finance and accounting department of Nordecon AS that is responsible for risk assessment and designing and implementing risk assessment and 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. Although in recent years revenue from public projects has gradually decreased, in 2015 it was still significant, accounting for around 30% of the Group's revenue (2014: around 33%). Similarly to previous years, the largest public sector customer was the Estonian Road Administration whose contracts accounted for around 19% of the Group's revenue.

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 demand security (e.g., payment guarantees issued by banks) for trade receivables unless the recoverability of a receivable is in doubt. However, the loans provided to non-Group parties have to be secured with mortgages, surety bonds or third-party guarantees.

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

Further information on the Group's credit risk exposure is provided in note 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 30 to 56 days and makes payments to 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.

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- 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 cash pooling facilities (cash pool accounts), which combine the Group's monetary resources and help mitigate seasonal fluctuations in Group entities' liquidity. Additional short-term financing needs are satisfied with overdraft and factoring facilities provided by banks.

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

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

The Group's liquidity position in 2016

At the reporting date, the Group's current assets and current liabilities amounted to 50,417 thousand euros and 47,786 thousand euros respectively (current ratio was 1.03). Current liabilities include loan liabilities of 15,715 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. In the past three years, the Group has been working with 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 2014-2017 and provided the Group with additional short-term overdraft facilities for counteracting seasonal fluctuations in its cash flows (2015: 6,000 thousand euros). The activities will continue in 2016. 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 2016, the Group believes that in 2016 loan liabilities of 11,388 thousand euros, which at the reporting date were classified as current, can be refinanced and that 10,778 thousand euros (short-term overdrafts of 7,290 thousand euros and long-term loans of 3,498 thousand euros) of this amount can be refinanced for a period exceeding twelve months. By the date of release of this report, banks have approved refinancing agreements on 4,098 thousand euros. During and at the end of the reporting period, the Group was in compliance with all loan covenants applicable to its financial position.

After adjustment for the above amounts, current assets and current liabilities would amount to 50,417 thousand euros and 37,008 thousand euros respectively (current ratio would be 1.36). In addition, according to the financing plan, in 2016 the financing partners will support the Group's liquidity position with additional overdraft facilities of approximately 4,400 thousand euros.

In the light of the above, the Group's management is confident that in 2016 the Group's liquidity position will be adequate to allow the Group to continue sustainable and profitable operating activities and to settle its liabilities to counterparties on a timely basis.

Further information on the Group's liquidity is provided in note 34.

Market risk

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

Currency risk

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

The Ukrainian national currency, the hryvnia (UAH), floats against other currencies. The Ukrainian Group entities' currency risk exposure arises from financial instruments that are denominated in currencies other than the hryvnia, for example, US dollar- or euro-based loan and lease liabilities. The hryvnia has been weakening because the political and economic environment in Ukraine continues to be strained due to the conflict between Ukraine and Russia which broke out at the beginning of 2014 and at the beginning of 2015 the National Bank of Ukraine decided to discontinue determination of the national currency's indicative exchange rate. In 2015, the hryvnia weakened against the euro by around 27%. For the Group's Ukrainian subsidiaries, this meant additional foreign exchange losses on the translation of their euro-denominated loan commitments into the local currency. Relevant

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exchange losses totalled 574 thousand euros (2014: 1,299 thousand euros). Exchange gains and losses on financial instruments have been recognised in *Finance income* and *Finance costs* respectively. Translation of receivables and liabilities from operating activities did not give rise to any exchange gains or losses. Nor do the loans provided to the Group's Ukrainian associates in euros give rise to exchange losses that ought to be recognised in the Group's accounts.

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

In 2016, the Ukrainian hryvnia has continued to weaken against the euro. From the beginning of the year until the date of release of this report, the exchange rate has weakened by around 9%.

The Swedish krona (SEK) has also a floating exchange rate. During the reporting period, the SEK/EUR exchange rate changed by 3%. The Group's Swedish subsidiary has no financial instruments denominated in a currency other than the Swedish krona. In 2015, the Swedish subsidiary did not incur any exchange losses. At the year-end, the Group's other subsidiaries did not have any financial instruments denominated in Swedish kronas.

Interest rate risk

The main source of the Group's interest rate risk is the possibility of a rise in the base rate of floating interest rates (Euribor, EONIA or the creditor's own base rate). In the light of the Group's relatively heavy loan burden this would cause a significant increase in interest expense, which would have an adverse impact on the Group's profit. The Group mitigates the risk by pursuing a policy of entering, where possible, into fixed-rate contracts when the market interest rates are low. As regards the loan products offered by banks, observance of the policy has proved difficult and most new contracts have a floating interest rate. The Group 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 was active in the following foreign markets: Ukraine, Finland and Sweden. Revenues generated in Ukraine and Finland accounted for 3% and 1% of the Group's total revenue respectively (2014: Ukraine 2% and Finland 4%). Swedish operations, which essentially started up at the beginning of 2016, had no impact on the Group's revenue for 2015. At the year-end, assets located in Ukraine, Finland and Sweden accounted for 0.2%, 0.8% and 0.7% of the Group's total assets respectively (2014: Ukraine 0.4% and Finland 1.6%).

The conflict between Ukraine and Russia that broke out at the beginning of 2014 continued to influence the political and economic environment in Ukraine also in 2015. Due to economic uncertainty, the Ukrainian hryvnia continued to plummet against the euro, causing the Group to incur exchange losses of around 0.6 million euros for the period. In recent years, the Group's bidding activities in Ukraine have been intentionally conservative, with work done in the capital Kiev and the surrounding area only. The ongoing military conflict, 700 km away in eastern Ukraine, has not had a direct impact on the Group's operations, mostly because the Group right-sized its workforce during earlier periods of the recession already and has accepted only such contracts whose risks are reasonable under the circumstances. The Group's Ukrainian business volumes have grown somewhat compared to 2014.

Real estate development activities which require major investments have been suspended to minimise the risks until the situation improves (the Group has currently stakes in two development projects that have been put on hold). To safeguard the investments, the Group and the co-owners have privatised the plots held by the associate V.I. Center TOV; the plots have also been mortgaged to secure shareholder loans.

The Group's net profit for 2015 was strongly influenced by the fourth-quarter write-down of loans provided for the two real estate development projects in Ukraine. The write-down of 2,977 thousand euros, which was recognised in finance costs, is attributable to Ukraine's continuing economic difficulties and the weakening of the hryvnia, which have lowered the prices of commercial real estate and relevant demand.

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

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

Determination of fair value

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

Financial instruments

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

For disclosure purposes, fair values 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 independent certified real estate appraisers. Fair value is determined using the following methods:

- Discounted cash flow method – To calculate the value of a property's discounted cash flows, the appraiser forecasts the property's future rental income (including rental per square metre and the occupancy rate) and associated operating expenses. Depending on the terms of the existing lease (whether and how easily the lease can be terminated by the tenant), the appraiser will base the projections on either the property's existing cash flows or the market's current average cash flows for similar properties. The present value of the future net cash flow is found by applying a discount rate which best reflects the market's expectations of a rate of return appropriate for the asset and the risks specific to the asset. 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 in similar circumstances. This method is used to determine the value of properties that do not generate rental income but are held for resale or capital appreciation. As the transactions selected for comparison are practically never identical with the property being valued, their prices are adjusted to reflect differences in time, location, size and phase of the detailed design plan. Application of this method assumes that a sufficient number of arm's length transactions with similar properties are performed in the area in which the property is located around the time the valuation is performed (comparable transactions have to have occurred no more than a year before the valuation).
- Price in a contract under the law of obligations – The fair value of properties which at the reporting date have been sold by a contract under the law of obligations but whose real right contract³ has not yet been signed is determined based on the sales price of the property in the contract under the law of obligations. The method is used for determining the fair value of a property only when the Group has reasonable

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

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.

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

Hence, the Group measured the fair values of its investment properties using the 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 disclosed in note 14.

Capital management

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

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

Gearing ratio is at a level where it does not influence the Group's capital management policies and does not require the Group to raise additional share capital. The ceiling of the gearing ratio is linked to the size of equity. Based on the statutory minimum equity requirements (see the next section), the gearing ratio as at the reporting date could have extended to 61% (2014: 59%) assuming all other variables remained constant.

EUR '000	2015	2014
Total interest-bearing liabilities (note 17)	20,813	23,733
Cash and cash equivalents (note 8)	-6,332	-8,802
Net interest-bearing liabilities	14,481	14,931
Total equity	36,067	36,367
Invested capital (interest-bearing liabilities + equity)	56,880	60,100
Gearing ratio*	25%	25%

*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 2015: 40.1%; 2014: 37.3%).

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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* (AS) has to amount to at least half of its share capital but not less than 25 thousand euros.

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

Dividend policy

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

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

Dividends distributed by Nordecon AS in previous years

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

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

The board proposes that in 2016 the company should distribute for 2015 a net dividend of 0.03 euros per share (923 thousand euros in aggregate), which would give rise to a maximum income tax expense of 231 thousand euros. Own (treasury) shares do not grant the company any shareholder rights (note 25).

NOTE 6. Group entities

At 31 December 2015, the consolidated financial statements of Nordecon Group included 26 subsidiaries (2014: 23), of which 20 were incorporated and domiciled in Estonia (2014: 19), 3 in Ukraine (2014: 2), 1 in Lithuania (2014: 1), 1 in Sweden (2014: none) and 1 in Finland (2014: 1).

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

Subsidiary	Core business	Country of incorporation	Ownership interest 2015 (%)	Ownership interest 2014 (%)
Nordecon Betoon OÜ	Concrete works	Estonia	52	52
Eston Ehitus AS	Building construction	Estonia	100	100
Järva Teed AS	Road construction and maintenance	Estonia	100	100
Hiiu Teed OÜ	Road construction and maintenance	Estonia	100	100
Kaurits OÜ	Leasing out heavy equipment	Estonia	66	66
EE Ressursid OÜ	Geological surveying	Estonia	100	100
Kalda Kodu OÜ	Real estate development	Estonia	100	100
Magasini 29 OÜ	Real estate development	Estonia	100	100
Eurocon OÜ ⁴	Holding company (UKR)	Estonia	96	96
Eurocon Vara OÜ	Holding company (UKR)	Estonia	100	100
Eurocon Ukraine TOV	Building construction	Ukraine	100	100
Instar Property TOV ⁴	Real estate development	Ukraine	98	98
Estcon Oy	Concrete works	Finland	52	52
Nordecon Statyba UAB ⁴	Building construction	Lithuania	80	80
SWENCN OÜ	Holding company (SE)	Estonia	60	-
SWENCN AB	Building construction (SE)	Sweden	60	-

⁴ Dormant

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 former business names), Infra Ehitus OÜ, Eurocon Bud TOV and four entities holding properties with nature conservation restrictions: OÜ Paekalda 2, OÜ Paekalda 3, OÜ Paekalda 7 and OÜ Paekalda 9. All of them are dormant and all are incorporated and domiciled in Estonia except for Eurocon Bud TOV which is incorporated and domiciled in Ukraine. In both the reporting and the comparative period, the Group's interest in Infra Ehitus OÜ was 66% and in the rest of the entities 100%.

At 31 December 2015, the Group had interests in 5 associates (2014: 4) and 1 joint venture (2014: 1). Further information on equity-accounted investees is presented in note 12.

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

Summarised financial information for subsidiaries with material non-controlling interests

EUR '000	2015			2014		
	Nordecon Betoon OÜ	Kaurits OÜ	Total	Nordecon Betoon OÜ	Kaurits OÜ	Total
Current assets	5,485	699	6,184	6,916	1,102	8,018
Non-current assets	565	2,320	2,885	345	2,248	2,593
Current liabilities	3,694	1,248	4,942	4,874	1,523	6,397
Non-current liabilities	64	1,023	1,087	60	807	867
Equity	2,292	748	3,040	2,326	1,020	3,346
Revenue	22,518	4,778	27,296	35,716	5,784	41,500
Profit/loss	254	-272	-16	1,014	174	1,188
Non-controlling interests' share of profit/loss	122	-92	30	487	59	546
Interest held by non-controlling interests, %	48%	34%		48%	34%	
Cash flows from operating activities	-199	153	-46	-529	498	-31
Cash flows from financing activities	-613	-435	-1,048	-170	-584	-754
Cash flows from investing activities	-186	192	6	179	173	352
Net cash flow	-998	-90	-1,088	-520	87	-433

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At 31 December 2015, non-controlling interests in the Group's equity totalled 1,528 thousand euros (31 December 2014: 1,671 thousand euros), of which non-controlling interests in Nordecon Betoon OÜ and Kaurits OÜ accounted for 1,107 thousand euros and 379 thousand euros respectively (31 December 2014: 1,123 thousand and 471 thousand euros respectively). The remaining non-controlling interests, none of which is individually material for the Group, totalled 41 thousand euros (31 December 2014: 76 thousand euros).

NOTE 7. Changes in Group structure

Acquisition of investments in subsidiaries

On 6 February 2015, Nordecon AS acquired a 60% stake in SweNCN OÜ, a company being formed. The transaction took place on the date of signature of the entity's memorandum of association. The core business of SweNCN OÜ is construction of residential and non-residential buildings, primarily in central Sweden, through a wholly-owned subsidiary acquired in Sweden. The share capital of SweNCN OÜ amounts to 2,500 euros.

On 2 July 2015, Nordecon AS's subsidiary SweNCN OÜ acquired 100% ownership in SWENCN AB, a company registered in the Kingdom of Sweden, from the entity's sole shareholder Lennart Alpstål who is, through Luksusjaht AS, a shareholder in both Nordecon AS and SweNCN OÜ. At the date of acquisition, the share capital of SWENCN AB amounted to 100,000 Swedish kronas (10,684 euros). Subsequent to acquisition, its share capital was increased to 200,000 Swedish kronas (21,368 euros). The company's core business is provision of construction services. Acquisition of the company was a strategic decision aimed at enabling the Group to expand its operations and start providing construction services in the Kingdom of Sweden.

SWENCN AB	Pre-acquisition carrying amount	EUR '000 Fair value
Cash	8	8
Net assets	8	8
Interest acquired	100%	
Value of net assets acquired	8	8
Cost		8
Subsidiary's cash and cash equivalents on acquisition		8
Paid on acquisition		-8
Cash flow from acquisition of the subsidiary		0

NOTE 8. Cash and cash equivalents

EUR '000	31 December 2015	31 December 2014
Current accounts	6,332	8,802
Total cash and cash equivalents	6,332	8,802

The amounts in current accounts are placed in overnight deposits with banks. In the reporting period, the interest rate of overnight deposits was 0.01% (2014: 0.10-0.25). A significant share of the Group's current accounts are with the following banking groups: Swedbank, Nordea Bank, and SEB.

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

NOTE 9. Trade and other receivables

EUR '000

Current items	Note	31 December 2015	31 December 2014
Trade receivables	34	11,519	13,435
Retentions receivable	27, 34	97	858
Receivables from related parties	34, 37	211	2
Loans to related parties	34, 37	305	2,116
Other receivables		1,276	1,505
Total receivables and loans provided		13,408	17,916
Due from customers for contract work	27, 34	4,095	5,319
Total current trade and other receivables		17,503	23,235

EUR '000

Non-current items	Note	31 December 2015	31 December 2014
Loans to related parties	34, 37	9,878	10,768
Other non-current receivables		638	443
Total non-current trade and other receivables		10,516	11,211

Trade receivables are presented net of the impairment allowance, which at the year-end amounted to -47 thousand euros (31 December 2014: -26 thousand euros). Changes in the impairment allowance are disclosed in note 34.

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

Long-term loans provided to the Ukrainian associates

At 31 December 2015, the Group's long-term loans to related parties of 9,878 thousand euros included loans provided to its Ukrainian associates and related accrued interest of 8,302 thousand euros (31 December 2014: 10,768 thousand euros). The figure consists of loan principal and interest receivable from Techopolis-2 TOV of 929 thousand euros (31 December 2014: 1,243 thousand euros) and V.I. Center TOV of 7,373 thousand euros (31 December 2014: 9,525 thousand euros) (note 37). The loans were provided for the acquisition and development of real estate (properties). The properties are located in Shastliv village near Kiev, next to the Kiev-Borispol motorway. The plan is to build a warehouse and logistics centre on the properties held by Techopolis-2 TOV and commercial premises on the properties held by V.I. Center TOV. The latter project has been started but is currently on hold. The loan provided to V.I. Center TOV is secured with a mortgage. The Group has invested in both projects together with the controlling shareholders in proportion to its ownership interest (note 12).

On the basis of valuation reports prepared in 2015 by an internationally recognised independent appraiser that valued the development projects to be carried out on the properties, the Group wrote down the loans related to the development projects by a total of 2,977 thousand euros, i.e., from 11,297 thousand euros to 8,302 thousand euros (note 32). The write-down is attributable to Ukraine's continuing economic difficulties and the weakening of the hryvnia, which have lowered the prices of commercial real estate and relevant demand. Repayment of the loans depends on how successfully the above real estate projects can be realised. The risks related to the Ukrainian market and the Group's action plan are described in the chapters *Organisation of the Group's operations in Estonia and foreign markets* and *Outlooks of the Group's geographical markets* and in note 5.

Management estimated the following key valuation inputs: the projects' expected future cash flows (expected rental prices), the discount rates, the vacancy rates of the commercial premises that will be rented out, and the time factor of realisation (delay in the completion of the development projects). Based on the fair value measurement inputs, the loans belong to Level 3 in the fair value hierarchy established in IFRS 13 *Fair Value Measurement*.

The key valuation inputs applied were as follows:

- a discount rate of 21-23%;
- a vacancy rate of 10-70%, depending on the year and the purpose of the rental premises;
- rental prices of 2-15 euros per square metre and 29-353 euros per day, depending on the purpose of the premises;

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- a cash flow forecast period of 2016-2023 plus the terminal year.

According to the assessment of the Group's management, all assumptions applied in the valuation of the loans were realistic but due to the difficulties of the Ukrainian economy, the sensitivity of the value of the loans is higher than usual. According to the sensitivity analysis (assuming that all other variables remain constant), the loans would require additional write-downs of the following amounts under the following circumstances:

- if the rental prices decreased by 10% compared with the ones applied – around 2,712 thousand euros;
- if the vacancy rate of the commercial premises rose by 5 percentage points – around 1,498 thousand euros;
- if the discount rate applied rose by 1 percentage point – around 1,186 thousand euros.
- if the completion of the development projects as a whole was delayed by 1 year - around 1,487 thousand euros.

NOTE 10. Prepayments

EUR '000	31 December 2015	31 December 2014
Prepayments to suppliers	922	657
Prepaid taxes	297	364
Prepaid expenses	380	180
Total prepayments	1,599	1,201

Prepayments to suppliers comprise prepayments for services of 887 thousand euros (31 December 2014: 582 thousand euros) and building materials of 35 thousand euros (31 December 2014: 75 thousand euros).

NOTE 11. Inventories

EUR '000	31 December 2015	31 December 2014
Raw materials and consumables	4,603	3,963
Work in progress	4,138	4,192
Finished goods	2,100	2,915
Goods for resale and properties held for development	12,762	13,718
Total inventories	23,603	24,788

In 2015, inventories of 10,523 thousand euros (2014: 8,085 thousand euros) were recognised in *Cost of sales*.

Raw materials and consumables comprise materials acquired for construction and road maintenance operations. In 2015, there were no write-downs of materials and consumables (2014: no write-down).

Work in progress comprises the costs related to construction contracts in progress at the reporting date (the costs related to work not yet delivered to customers). 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 2015	31 December 2014
Capitalised pre-development expenditures	2,384	2,601
Other construction projects	1,754	1,591
Total	4,138	4,192
Of which borrowing costs	1,120	955

During the year, the Group capitalised borrowing costs of 165 thousand euros (2014: 104 thousand euros). In 2015, capitalised borrowing costs accounted for 21% of the Group's total borrowing costs (2014: 16%).

Finished goods comprise the construction costs of apartments completed but not yet sold. During the period, the net realisable values of the apartments did not decrease below their carrying amounts and no write-downs were recognised (2014: no write-down). Net realisable values were estimated using comparisons with the market prices of similar apartments.

At the reporting date, the total carrying value of properties (plots) acquired for development was 12,762 thousand euros (2014: 13,718 thousand euros). A property acquired for development is carried in *Goods for resale and properties held for development* until it is sold as a separate asset or its development reaches the phase where the building on it is ready for sale at which point the property or part of it is reclassified to *Finished goods*. All post-

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acquisition pre-development expenditures that qualify for capitalisation are recognised in *Work in progress*. At the year-end, properties acquired for development were carried at cost except for one plot that was carried at its net realisable value estimated on the basis of market value measured by independent appraisers. In the reporting period, no properties (plots) acquired for development were written down (2014: no write-down) (note 31). According to the estimates of the Group's management, at 31 December 2015 the Group had properties held for development of 2,267 thousand euros that could be realised within one year and properties held for development of 10,495 thousand euros that could be realised within more than one year.

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

Potential impact of changes in estimates

The Group measured the net realisable values of properties (plots) acquired for development using the residual value method. 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 1,480 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 317 thousand euros.

NOTE 12. Investments in equity-accounted investees

General information on equity-accounted investees

Name and type of investee	Domicile	Group's interest		Core business	
		31 December 2015	31 December 2014		
V.I. Center TOV	Associate	Ukraine	44%	44%	Real estate development
Technopolis-2 TOV	Associate	Ukraine	50%	50%	Real estate development
Kastani Kinnisvara OÜ	Associate	Estonia	26%	26%	Real estate development
Embach Ehitus OÜ	Associate	Estonia	46%	-	Building construction
Pigipada OÜ	Associate	Estonia	49%	49%	Bitumen refining
Unigate OÜ	Joint venture	Estonia	50%	50%	Real estate development

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

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

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

Carrying amount of investments in equity-accounted investees

EUR '000	31 December 2015	31 December 2014
Investments in equity-accounted investees (associates and joint ventures)	1,179	694
Total investments in equity-accounted investees	1,179	694

Financial information of equity-accounted investees

2015

Summary financial information of associates presented as separate companies

EUR '000

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

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

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

EUR '000

Joint venture	31 December 2015				2015		31 December 2015
	Current assets	Non- current assets	Current liabilities	Non- current liabilities	Revenue	Expenses	
Unigate OÜ	3,708	0	3,152	0	0	-233	278

Carrying value of investment in the Group's accounts

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

2014

Summary financial information of associates presented as separate companies

Company	V.I.Center TOV	Tehnopolis-2 TOV	Kastani Kinnisvara OÜ	Embach Ehitus OÜ	Pigipada OÜ	Total
Current assets	522	68	226	0	877	1,693
Non-current assets	8,349	214	0	0	640	9,203
Current liabilities	20,142	2,496	201	0	208	23,047
Equity	-11,271	-2,214	25	0	1,309	-12,151
Revenue	32	0	62	0	6,836	6,930
Expenses	-9,556	-1,295	-142	0	-6,346	-17,341
Profit/loss	-9,524	-1,295	-80	0	488	-10,411
Carrying amount of investment	0	0	13	0	641	654

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

EUR '000

Joint venture	31 December 2014				2014		31 December 2014
	Current assets	Non- current assets	Current liabilities	Non- current liabilities	Revenue	Expenses	
Unigate OÜ	3,677	0	3,597	0	0	-230	40

Carrying value of investment in the Group's accounts

At 31 December 2014, current liabilities included loan liabilities of 2,830 thousand euros. In 2014, interest expense on loan liabilities amounted to 228 thousand euros.

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

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

EUR '000	Recorded in 2015			Recorded in 2014		
	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	-2,585	0	-2,585	-4,191	0	-4,191
Technopolis-2 TOV	-429	0	-429	-648	0	-648
Kastani Kinnisvara OÜ	-23	-13	-10	-40	-40	0
Embach Ehitus OÜ	185	185	0	-	-	-
Sepavara OÜ	-	-	-	1	1	0
Pigipada OÜ	171	171	0	239	239	0
Unigate OÜ	-117	-117	0	-115	-115	0
Total	-2,798	226	-3,024	-4,753	85	-4,838

NOTE 13. Other long-term investments

EUR '000	31 December 2015	31 December 2014
Other long-term investments	26	26
Total other long-term investments	26	26

Other long-term investments comprise the Group's 12% interest in E-Trading AS, which is measured at cost because its fair value cannot be measured reliably. During the period, the carrying amount of the investment did not change. The Group does not intend to dispose of the investment in the near term.

NOTE 14. Investment property

EUR '000	2015	2014
Investment property at 1 January	3,549	3,549
Reclassification from inventories	1,380	0
Investment property at 31 December	4,929	3,549

The period's rental income on investment properties amounted to 14 thousand euros (2014: 11 thousand euros) and direct property management expenses totalled 6 thousand euros (2014: 9 thousand euros). Investment properties that do not generate rental income did not give rise to any significant property management expenses. Information on assets pledged as collateral for financial liabilities is provided in note 36.

The Group measured the fair values of its investment properties using the residual value method (see note 2 for a description). The properties have a valid detailed design plan and their intended purpose is commercial land and production land. The areas of the properties are around 6 thousand and 42 thousand square metres. Based on their intended purpose, the construction price of the buildings planned on the plots (one input of the residual value method) ranges from 440 to 720 euros per square metre. The construction price of the buildings planned on commercial land is relatively low because the location sets lower functionality requirements. Rental charges are up to 12 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 2015 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, in *Use of significant accounting estimates and judgements*, and note 5, in *Determination of fair value – Investment property*.

Potential impact of changes in estimates

A rise in construction prices has a direct impact on the outcome of the measurement of the fair value of investment property. The Group tested the impact of a 5% increase in construction prices on the valuation

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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 1,075 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 current market conditions. The rates applied were around 15%. 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. A sensitivity analysis showed that if the expected rate of return were 3% higher, the investment properties would have to be written down by around 1,770 thousand euros.

NOTE 15. Property, plant and equipment

EUR '000	Land and buildings	Plant and equipment	Other items of PP&E	Assets under construction	Total
Cost					
At 31 December 2013	2,466	19,020	3,744	201	25,431
Additions	176	2,029	90	4	2,299
Disposals	0	-1,575	-236	-87	-1,898
Effect of movements in exchange rates	0	-31	-37	0	-68
At 31 December 2014	2,642	19,443	3,561	118	25,764
Additions	11	1,779	443	25	2,258
Disposals	0	-1,687	-673	-4	-2,364
Effect of movements in exchange rates	0	-17	-8	0	-25
At 31 December 2015	2,653	19,518	3,323	139	25,633
Accumulated depreciation					
At 31 December 2013	562	12,738	3,100	1	16,401
Depreciation for the year	90	1,466	236	0	1,792
Disposals	0	-1,477	-224	0	-1,701
Effect of movements in exchange rates	0	-9	-37	-1	-47
At 31 December 2014	652	12,718	3,075	0	16,445
Depreciation for the year	95	1,502	239	0	1,836
Disposals	0	-1,626	-618	0	-2,244
Effect of movements in exchange rates	0	-18	-9	0	-27
At 31 December 2015	747	12,576	2,687	0	16,010
Carrying amount					
At 31 December 2013	1,904	6,282	644	200	9,030
At 31 December 2014	1,990	6,725	486	118	9,319
At 31 December 2015	1,906	6,942	636	139	9,623

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

At the reporting date, the Group had a binding commitment to acquire property, plant and equipment of 1,817 thousand euros. The Group had signed a finance lease agreement to finance the purchase (note 18).

Depreciation expense has been recognised in *Cost of sales* in an amount of 1,810 thousand euros (2014: 1,762 thousand euros) (note 29) and in *Administrative expenses* in an amount of 26 thousand euros (2014: 30 thousand euros) (note 30).

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

EUR '000	2015			2014		
	Plant and equipment	Other items of PP&E	Total	Plant and equipment	Other items of PP&E	Total
Cost at 31 December	11,749	468	12,217	11,526	250	11,776
Carrying amount at 31 December	6,411	342	6,753	4,868	121	4,989

In 2015, the Group signed new finance lease contracts of 2,485 thousand euros (2014: 1,890 thousand euros).

NOTE 16. Intangible assets

EUR '000	Note	Goodwill	Software licences	Trademarks	Development expenditures	Total
Cost						
At 31 December 2013		18,483	49	863	407	19,802
Additions		290	0	0	50	340
At 31 December 2014		18,773	49	863	457	20,142
Additions		0	14	0	7	21
Write-off		0	0	0	-42	-42
At 31 December 2015		18,773	63	863	422	20,121
Accumulated amortisation and impairment losses						
At 31 December 2013		4,405	48	855	0	5,308
Amortisation for the year		0	1	8	0	9
Write-down	31	192	0	0	0	192
At 31 December 2014		4,597	49	863	0	5,509
Amortisation for the year		0	3	0	0	3
At 31 December 2015		4,597	52	863	0	5,512
Carrying amount						
At 31 December 2013		14,078	1	8	407	14,494
At 31 December 2014		14,176	0	0	457	14,633
At 31 December 2015		14,176	11	0	422	14,609

Capitalised development expenditures result from preparations made for the extraction of sand deposits from the seabed. The preparations will continue in 2016.

Amortisation has been recognised in *Administrative expenses* in an amount of 3 thousand euros (2014: 9 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 2015	Interest 2014	31 December 2015	31 December 2014	EUR '000
Nordecon AS					
Goodwill*	-	-	8,206	8,206	
Subsidiaries					
Nordecon Betoon OÜ	52%	52%	181	181	
Kaurits OÜ	66%	66%	2,022	2,022	
AS Eston Ehitus	100%	100%	3,767	3,767	
Total			14,176	14,176	

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

General assumptions for determining value in use

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

- The forecast period was 2016-2019 plus the terminal year.
- The present value of future cash flows was found using the average weighted cost of capital (WACC) as the discount rate. The proportions of debt and equity capital used as weights were based on the capital structures of similar companies (measured at average market value), which according to the Damodaran database were 48.1% and 51.9% respectively.

The cost of debt was estimated based on the CGUs' actual loan interest rates, which ranged from 2.0% to 6.0%. The expected rate of return on equity was set at 15%, which was compared against the required rate of return on equity for companies operating in a similar industry in the Damodaran database.

- Changes in subsequent periods' revenues were projected on the basis of the CGUs' action plans for subsequent years (including the budgets approved by management for 2016) and an assessment of the market situation in the segment where the specific CGU operates.
- Changes in subsequent periods' gross margins were projected on the basis of the CGUs' action plans for subsequent years (including the budgets approved by management for 2016) and an assessment of the market situation in the segment where the specific CGU operates.
- Administrative expenses which affect operating cash flow were projected on the basis of the budgets approved by management for 2016.
- Changes in working capital investments were projected based on the expected revenue change against the comparative period. The absolute revenue change was used to estimate the portion (5%) that is expected to be needed for raising additional working capital upon revenue growth or to be released upon revenue decline.
- Changes in capital expenditures were projected on the basis of the investment budgets approved by management for 2016 and by applying to it growth rates suitable for subsequent years, estimated by reference to projections of the specific CGU's future operations.

Nordecon AS	Assumptions applied
Forecast period	2016-2019 + terminal year
Discount rate	9.3%
Revenue change	2016: 7%, 2017-2019: compound annual growth rate (CAGR) 6.2%, terminal year: 1%
Gross margin	2016: based on budget, 2017-2019: gradual growth to up to 6.5%, terminal year: 6.5%
Administrative expenses	See general assumptions, 2016-2019: 3-3.5% of revenue, terminal year: 3.5%
Working capital	See general assumptions
Capital expenditures	See general assumptions

Nordecon Betoon OÜ	Assumptions applied
Forecast period	2016-2019 + terminal year
Discount rate	9.0%
Revenue change	2016: 33%, 2017-2019: compound annual growth rate (CAGR) 3.3%, terminal year: 1%
Gross margin	2016: based on budget, 2017-2019: gradual growth to up to 7.5%, terminal year: 7.5%
Administrative expenses	See general assumptions, 2016-2019: 2.2-2.5% of revenue, terminal year: 2.5%
Working capital	See general assumptions
Capital expenditures	See general assumptions

Kaurits OÜ	Assumptions applied
Forecast period	2016-2019 + terminal year
Discount rate	8.8%
Revenue change	2016: 7%, 2017-2019: compound annual growth rate (CAGR) 6.6%, terminal year: 1%
Gross margin	2016: based on budget, 2017-2019: gradual growth to up to 9%, terminal year: 9%
Administrative expenses	See general assumptions, 2016-2019: 4-5% of revenue, terminal year: 4%
Working capital	See general assumptions
Capital expenditures	See general assumptions. 2016-2019 continuing renewal of machinery fleet.

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Eston Ehitus AS	Assumptions applied
Forecast period	2016-2019 + terminal year
Discount rate	10.7%
Revenue change	2016: 15%, 2017-2019: compound annual growth rate (CAGR) 9.8%, terminal year: 1%
Gross margin	2016: based on budget, 2017-2019: gradual growth to up to 8%, terminal year: 8%
Administrative expenses	See general assumptions, 2016-2019: ca 2% of revenue, terminal year: 2.2% (own support functions minimal; a significant share of expenses included in project costs)
Working capital	See general assumptions
Capital expenditures	See general assumptions

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

Potential impact of changes in estimates

The value in use of a cash-generating unit is compared to the carrying amount of the investment made plus the carrying amount of the goodwill allocated to it. Value in use is an estimate. Therefore, any changes in selected inputs may increase or reduce the value obtained. Management performed a sensitivity analysis that reflected how a change in discount rates 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 9.8%) does not exceed 7% percentage points, assuming all other variables remain constant.

NOTE 17. Loans and borrowings

Current loans and borrowings

EUR '000	Note	31 December 2015	31 December 2014
Overdraft liabilities		7,290	7,464
Current portion of non-current loans and borrowings, of which:		6,016	9,797
Bank loans		4,323	8,328
Other long-term loans		174	258
Finance lease liabilities	18	1,519	1,211
Short-term bank loans		266	474
Factoring liabilities		2,143	2,853
Total current loans and borrowings		15,715	20,588

Non-current loans and borrowings

EUR '000	Note	31 December 2015	31 December 2014
Total non-current loans and borrowings		11,114	12,942
Of which current portion		6,016	9,797
Non-current portion, of which:		5,098	3,145
Bank loans		1,960	102
Finance lease liabilities	18	3,138	3,043

Details of loans as at 31 December 2015:

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

*Repayments are linked to sale of apartments. Apartments will be completed in 2016 and the loan will be repaid before its maturity date.

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Negotiations with banks regarding refinancing of the Group's loan commitments are held from March to May 2016. The decisions which will be made will affect all loan liabilities that mature in the first half of 2016. By the date of release of this report, banks have agreed to refinance liabilities of 4,098 thousand euros.

Details of loans as at 31 December 2014:

EUR '000 Loan type	Base currency	Interest rate	Up to 1 year	1-2 years	3-... years	Total loan	Maturity date
Overdraft	EUR	4.0%	1,902	0	0	1,902	30 September 2015
Overdraft	EUR	Bank's base rate + 2.7%	4,992	0	0	4,992	31 December 2015
Overdraft	EUR	6M Euribor + 2.5%	570	0	0	570	30 June 2015
Investment loan	EUR	6M Euribor + 3.0%	30	0	0	30	10 December 2015
Investment loan	EUR	6M Euribor + 3.5%	1,378	0	0	1,378	24 November 2015
Investment loan	EUR	6M Euribor + 3.7%	1,850	0	0	1,850	5 June 2015
Investment loan	EUR	3M Euribor + 3.7%	1,981	0	0	1,981	5 June 2015
Investment loan	EUR	4.25%	2,998	0	0	2,998	16 May 2015
Investment loan	EUR	6M Euribor + 2.67%	32	0	0	32	11 January 2015
Investment loan	EUR	6M Euribor + 1.0%	59	56	46	161	18 September 2017
Investment loan	EUR	1M Euribor + 3.7%	474	0	0	474	5 June 2015
Working capital loan	EUR	6,0%	258	0	0	258	1 August 2015
Factoring liability	EUR	EONIA + 2.5%	2,853	0	0	2,853	31 December 2015
Total loans			19,377	56	46	19,479	

NOTE 18. Finance and operating leases

Finance leases

The Group as a lessee

EUR '000	Note	2015	2014
Finance lease liabilities at beginning of year		4,254	3,834
Addition		2,161	1,852
Principal payments made		-1,758	-1,432
Finance lease liabilities at end of year, of which falling due:		4,657	4,254
Not later than 1 year	17	1,519	1,211
Later than 1 year and not later than 5 years	17	3,138	3,043
Base currency EUR		4,657	4,254
Interest rate for contracts denominated in EUR*		2.0%-3.9%	2.0%-5.2%
Weighted average interest rate		2.3%	3.25%
Interest expense of the period		144	135
Frequency of payments		Monthly	Monthly

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

As at the end of the reporting period, the Group had a finance lease contract for the acquisition of assets of 1,817 thousand euros in 2016. No prepayments have been made and the finance lease liability will be recognised in the Group's statement of financial position when the assets are recognised (note 15).

According to contracts in force, estimated minimum future finance lease rentals are payable as follows:

EUR '000 Payable	2015		2014	
	Minimum lease rentals*	Interest	Minimum lease rentals*	Interest
Not later than 1 year	1,635	116	1,519	112
Later than 1 year and not later than 5 years	3,260	122	3,138	128
Total	4,895	238	4,657	240

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

Operating leases

Operating lease expenses recognised during the reporting period for:

EUR '000	2015	2014
Cars	795	661
Construction equipment	1,772	2,562
Premises	646	682
IT equipment	244	247
Total operating lease expenses	3,457	4,152

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

EUR '000		31 December 2015	31 December 2014
Not later than 1 year	Future minimum lease rentals	1,468	1,166
Later than 1 year and not later than 5 years	Future minimum lease rentals	2,859	1,661

The Group's operating leases can be terminated early provided notice is given as agreed in the contracts.

NOTE 19. Trade payables

EUR '000	Note	31 December 2015	31 December 2014
Trade payables		15,544	19,667
Accrued expenses related to contract work		5,164	6,590
Payables to related parties	37	1,830	10
Total current trade payables		22,538	26,267
Trade payables		104	109
Total non-current trade payables		104	109

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

NOTE 20. Other payables

EUR '000	31 December 2015	31 December 2014
Payables to employees	3,447	5,477
Taxes payable	1,914	1,908
Accrued expenses	67	110
Miscellaneous payables	47	47
Total current other payables	5,475	7,542
Miscellaneous payables	96	96
Total non-current other payables	96	96

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

Accrued expenses include mainly interest accrued on loan liabilities.

Taxes payable

EUR '000	31 December 2015	31 December 2014
Value added tax	747	575
Personal income tax	337	373
Social security tax	636	640
Other taxes	194	320
Total taxes payable	1,914	1,908

NOTE 21. Deferred income

EUR '000	Note	31 December 2015	31 December 2014
Due to customers for contract work	27	3,166	1,746
Advances received for goods and services		67	40
Total deferred income		3,233	1,786

NOTE 22. Provisions

EUR '000	31 December 2015	31 December 2014
Current provisions	825	799
Non-current provisions	768	759
Total provisions	1,593	1,558

Changes in provisions

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

Warranty provisions (EUR '000)	2015	2014
Opening balance	1,158	1,546
Provisions used and reversed	-590	-579
Provisions recognised	556	191
Closing balance, of which:	1,124	1,158
Current portion	604	677
Non-current portion	520	481
Other provisions (EUR '000)	2015	2014
Opening balance	400	336
Provisions recognised	224	161
Provisions used	-155	-97
Closing balance, of which:	469	400
Current portion	221	122
Non-current portion	248	278

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

NOTE 23. Equity

Share capital

EUR '000	2015	2014
At 1 January	20,692	19,657
At 31 December	20,692	20,692

In accordance with the articles of association of Nordecon AS, the company's share capital consists of 32,375,483 ordinary shares with no par value which have been fully paid for. Owners of ordinary shares are entitled to dividends as distributed from time to time. Each share carries one vote at the general meetings of Nordecon AS. Without changing the articles of association, share capital may be changed in the range of 8,000 thousand to 32,000 thousand euros. For own shares, see note 25.

Share premium

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

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Capital reserve

The Estonian Commercial Code requires companies to set up a capital reserve. Each year at least one twentieth of profit for the year has to be transferred to the capital reserve until the reserve amounts to one tenth of share capital. The capital reserve may be used for covering losses and increasing share capital but not for making distributions to shareholders. At the reporting date, the capital reserve stood at 2,554 thousand euros (31 December 2014: 2,554 thousand euros).

Translation reserve

The translation reserve comprises foreign exchange differences from the translation of the financial statements of foreign subsidiaries whose functional currency differs from the Group's presentation currency. At the reporting date, the translation reserve stood at 1,358 thousand euros (31 December 2014: 771 thousand euros). The change is attributable to the weakening of the Ukrainian subsidiaries' functional currency against the euro.

Dividends

In 2015, the parent company Nordecon AS distributed a dividend of 923 thousand euros (2014: 923 thousand euros).

NOTE 24. 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.

	2015	2014
Profit for the year attributable to owners of the parent (EUR '000)	179	1,956
Weighted average number of shares (in thousands)	30,757	30,757
Basic earnings per share (EUR)	0.01	0.06
Diluted earnings per share (EUR)	0.01	0.06

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

NOTE 25. Share-based payments

The general meeting that convened in May 2014 approved a share option plan aimed at motivating the executive management of Nordecon AS by including them among the company's shareholders to ensure consistency in the company's management and improvement of the company's performance, and enable the executive management to benefit from their contribution to growth in the value of the company's share. The number of shares that may be subscribed for under the option agreements signed with the Group's executive management differs by person.

A person eligible to the option plan may exercise an option when three years have passed since the signature of the option agreement but not before the company's general meeting has approved the company's annual report for 2016 in line with the procedure specified in the option agreement and the terms and conditions of the option plan as approved by the general meeting of Nordecon AS. The share options may not be transferred. In the case of members of the company's board, exercise of the options is linked to achievement of the Group's EBITDA target for 2016 (from 4,491 thousand euros to 11,228 thousand euros).

Under the plan, Nordecon AS has granted options for acquiring a total of 1,618,755 ordinary shares in Nordecon AS.

The share capital of Nordecon AS was increased in July 2014 by 1,035 thousand euros by issuing 1,618,755 new shares with no par value. The issue price of the shares was 0.977 euros per share. The total cost of the shares was 1,581 thousand euros and the new shares were issued at a premium of 547 thousand euros. Nordecon AS acquired the same number of own (treasury) shares for the same price.

At the grant date, the fair value of the share options was measured using the Bermuda model. The pricing inputs that were taken into account included: the current price of the underlying shares at the measuring date (1 euro),

the exercise price of the option (0.977 euros), the expected volatility of the share price (30%), the life of the option (37 months), the risk-free interest rate (0.323%) and the dividends expected on the shares.

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)
- 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 in segment reporting. Information on the proportion of revenue earned on transactions with the largest customer is disclosed in the *Credit risk* section of note 5.

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

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

2015

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

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2014

EUR '000	Buildings EU	Buildings UKR	Infrastructure EU	Other segments	Total
Total revenue	101,981	3,197	51,958	5,784	162,920
Inter-segment revenue	-33	0	-373	-2,284	-2,690
Revenue from external customers	101,948	3,197	51,585	3,500	160,230
Gross profit of the segment	7,260	22	3,528	319	11,129
Depreciation and amortisation	-80	-17	-1,208	-438	-1,743
Other significant non-cash items including asset write-downs	-192	0	0	0	-192
Segment assets	64,551	12,861	18,975	3,597	99,984
Investments in equity-accounted investees	53	0	641	0	694
Capital expenditures	31	28	1,722	518	2,299

Over 10% of revenue is made up of revenue from the Estonian Road Administration, which has been recognised using the stage of completion method. In 2015 relevant revenue amounted to 27,648 thousand euros (2014: 32,259 thousand euros). The revenue is attributable to the Infrastructure segment.

Adjustments

EUR '000	2015	2014
Depreciation and amortisation for reportable and other segments	-1,795	-1,743
Adjustments	-44	-58
Consolidated depreciation and amortisation	-1,839	-1,801
Other significant non-cash items for reportable and other segments including asset write-downs	0	-192
Consolidated other significant non-cash items including asset write-downs	0	-192
Capital expenditures for reportable and other segments	2,277	2,299
Adjustments	2	0
Consolidated capital expenditures	2,279	2,299
Investments in equity-accounted investees	1,179	694
Adjustments	0	0
Consolidated investments in equity-accounted investees	1,179	694

Reconciliation of segment revenues

EUR '000	2015	2014
Total revenues for reportable segments	142,068	157,136
Revenue for other segments	4,778	5,784
Elimination of inter-segment revenues	-2,248	-2,690
Unallocated revenue	917	1,059
Total consolidated revenue	145,515	161,289

Reconciliation of segment profit

EUR '000	2015	2014
Total profit for reportable segments	10,402	10,810
Total profit/loss for other segments	-233	319
Elimination of inter-segment profits and losses	-19	-16
Unallocated profits and losses	-1,119	-1,300
Consolidated gross profit	9,031	9,813
Unallocated expenses:		
Marketing and distribution expenses	-412	-558
Administrative expenses	-5,026	-5,656
Other operating income and expenses	340	416
Consolidated operating profit	3,933	4,015
Finance income	655	738
Finance costs	-4,383	-2,301
Share of profit of equity-accounted investees	226	85
Consolidated profit before tax	431	2,537

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Reconciliation of segment assets

EUR '000	31 December 2015	31 December 2014
Total assets of reportable segments	73,902	95,776
Investments in equity-accounted investees	1,179	694
Total assets of other segments	3,441	3,597
Inter-segment eliminations	-2,368	-13,065
Unallocated assets	13,765	10,456
Total consolidated assets	89,919	97,458

Geographical information

Revenue (EUR '000)	2015	2014
Estonia	139,495	151,739
Ukraine	4,481	3,197
Finland	1,539	6,565
Inter-segment eliminations	0	-212
Total revenue	145,515	161,289
	2015	2014
Assets based on geographical location* (EUR '000)		
Estonia	27,812	27,500
Ukraine	0	1
Total assets	27,812	27,501

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

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

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 the projects (EUR '000)	31 December 2015	31 December 2014
Contract costs recognised using the stage of completion method	68,940	78,389
Estimated gross profit	4,069	3,147
Contract revenue recognised using the stage of completion method	72,893	81,536
Progress billings	71,964	77,962
Difference between total progress billings and revenue recognised using stage of completion method	929	3,573
Of which due from customers (note 9)	4,095	5,319
Of which due to customers (note 21)	3,166	1,746

At the reporting date, retentions receivable under construction contracts totalled 97 thousand euros (31 December 2014: 858 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	2015	2014	2015	2014
Change in revenue +5%	7,945	7,293	Change in revenue -5%	-16,343
Change in gross profit	484	486	Change in gross profit	-1,149

NOTE 28. Government grants

The Group participated in a pilot project for demonstrating possibilities for using oil shale ash in road construction. The project was funded by the EU structural funds. The Group received the following amounts of government grants:

Grants related to income EUR '000	2015	2014
Deferred income from government grants at 1 January	0	0
Received from EU structural funds	0	212
Recognised as income from government grants	0	212
Deferred income from government grants at 31 December	0	0

The grants received were recognised in *Revenue*. The costs covered with the grants were recognised in *Cost of sales*.

NOTE 29. Cost of sales

EUR '000	2015	2014
Cost of materials, goods and services	119,083	132,869
Personnel expenses	15,317	16,695
Depreciation expense (note 15)	1,810	1,762
Other expenses	274	150
Total cost of sales	136,484	151,476

In 2015 the Group employed, on average, 690 employees (2014: 732).

NOTE 30. Administrative expenses

EUR '000	2015	2014
Cost of materials, goods and services	1,935	2,093
Personnel expenses	2,931	3,404
Depreciation and amortisation expense (notes 15 and 16)	29	39
Other expenses	131	120
Total administrative expenses	5,026	5,656

NOTE 31. Other operating income and expenses

Other operating income

EUR '000	Note	2015	2014
Gain on sale of property, plant and equipment		379	256
Gain from a bargain purchase (negative goodwill)	7	0	414
Other income		85	122
Total other operating income		464	792

Other operating expenses

EUR '000	Note	2015	2014
Loss on sale and write-off of property, plant and equipment		52	7
Write-down of goodwill	16	0	192
Net loss on recognition and reversal of impairment losses on receivables	34	22	14
Other expenses		50	163
Total other operating expenses		124	376

NOTE 32. Finance income and costs

Finance income

EUR '000	2015	2014
Foreign exchange gain	0	96
Interest income on loans provided	655	642
Total finance income	655	738

Interest income on loans provided includes interest income of 615 thousand euros (2014: 613 thousand euros) on loans provided to related parties (note 37).

Finance costs

EUR '000	2015	2014
Interest expense	770	1,001
Foreign exchange loss	574	1,299
Other finance costs	3,039	1
Total finance costs	4,383	2,301

Other finance costs include the write-down of loans provided for the Group's two Ukrainian real estate development projects. The write-down of 2,977 thousand euros was attributable to the continuing difficulties of the Ukrainian economy and the weakening of the Ukrainian currency, which lowered the prices of and the demand for commercial real estate to a level where the investments had to be written down (note 9).

NOTE 33. Income tax expense

EUR '000	%	2015	%	2014
Profit for the year		174		2,298
Income tax expense		-257		-239
Profit before tax		431		2,537
Income tax using the tax rate of the parent company	0%	0	0%	0
Income tax on dividends distributed by Estonian Group entities	-59.63%	-257	-9.38%	-238
Income tax in foreign jurisdictions	0%	0	-0.04%	-1
Total income tax expense	-59.63%	-257	-9.42%	-239

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

In 2015, the Group's subsidiaries paid a net dividend of 288 thousand euros, which gave rise to income tax expense of 72 thousand euros (2014: 240 thousand euros and 61 thousand euros respectively). The share of dividends paid to non-controlling interests amounted to 137 thousand euros (2014: 81 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	2015	2014
Cash and cash equivalents	8	6,332	8,802
Trade receivables	9	11,519	13,435
Retentions receivable	9	97	858
Receivables from related parties	9	211	2
Loans to related parties	9	10,183	12,884
Other receivables	9	1,914	1,948
Due from customers for contract work	9	4,095	5,319
Total		34,351	43,248

Receivables from third parties and loans to related parties are unsecured except for the loan provided to V.I. Center TOV (note 9). According to the Group's assessment, the credit risk of receivables not past due and receivables past due but not written down is low.

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Financial assets by geographical origin at the reporting date

EUR '000	2015	2014
Estonia	33,108	41,734
Ukraine	155	115
Sweden	627	-
Lithuania	11	19
Finland	450	1,380
Total	34,351	43,248

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

EUR '000	31 December 2015		31 December 2014	
	Trade receivables	Impairment allowance	Trade receivables	Impairment allowance
Not past due	7,368	0	11,684	0
0-30 days past due	3,234	0	1,099	0
31-180 days past due	300	0	203	0
Over 180 days past due *	664	-47	475	-26
Total	11,566	-47	13,461	-26

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

Changes in the impairment allowance for receivables

EUR '000	2015	2014
Impairment allowance at 1 January	-26	-55
Impaired items recovered during the year	0	10
Impairment losses recognised during the year	-22	-24
Items written off during the year	1	43
Impairment allowance at 31 December	-47	-26

In 2015, recognition of impairment losses on receivables and recovery of previously impaired items gave rise to a net loss of 22 thousand euros (2014: a net loss of 14 thousand euros) (note 31).

During the year, receivables of 1 thousand euros that had been written down in earlier periods were written off as irrecoverable (2014: 43 thousand euros).

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

EUR '000	Carrying amount	Contractual cash flows	Less than 1 year	31 December 2015	
				1-2 years	More than 3 years
Financial liability*					
Overdraft liabilities (note 17)	7,290	7,515	7,515	0	0
Bank and other loans (note 17)	6,723	6,923	4,852	2,031	40
Finance lease liabilities (note 18)	4,657	4,895	1,635	2,427	833
Factoring liabilities (note 17)	2,143	2,157	2,157	0	0
Trade payables (note 19)	20,812	20,812	20,812	0	0
Other payables (note 20)	3,657	3,657	3,561	96	0
Total	45,282	45,959	40,532	4,554	873

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

EUR '000	Carrying amount	Contractual cash flows	Less than 1 year	31 December 2014	
				1-2 years	More than 3 years
Financial liability*					
Overdraft liabilities (note 17)	7,464	7,698	7,698	0	0
Bank and other loans (note 17)	9,162	9,341	9,237	104	0
Finance lease liabilities (note 18)	4,254	4,494	1,323	2,548	623
Factoring liabilities (note 17)	2,853	2,864	2,864	0	0
Trade payables (note 19)	26,366	26,366	26,366	0	0
Other payables (note 20)	5,730	5,730	5,634	96	0
Total	55,829	56,493	53,122	2,748	623

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

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

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

- an overdraft facility of 129 thousand euros with a fixed interest rate of 4.00% per year;
- an overdraft facility of 1,008 thousand euros with an interest rate of the bank's base rate plus 2.7% per year;
- an overdraft facility of 468 thousand euros with an interest rate of 6M Euribor plus 2.5% per year;
- an overdraft facility of 301 thousand euros with an interest rate of 6M Euribor plus 2.5% per year.

In addition to overdraft facilities, the Group had a factoring arrangement with a limit of 5,153 thousand euros for speeding up recovery of receivables with long settlement terms. At the year-end, 2,300 thousand euros of the limit was not in use.

Guarantee commitments accounted for off the statement of financial position

Banks have provided the Group with construction-related guarantees of 27,374 thousand euros (2014: 24,927 thousand euros). According to management's estimates, at the reporting date the risk that the guarantees might be called upon was low. In the reporting period and earlier periods (2008-2012) no bank guarantees were called upon due to non-performance of obligations under construction contracts. In both 2013 and 2014 one letter of guarantee was enforced in the amount of 154 thousand euros and 25 thousand euros respectively. In both cases the Group was repaid the full amount after warranty work had been completed.

Refinancing of current financial liabilities in 2016

Based on the financing plan in place, the Group believes that in 2016 loan liabilities of 11,388 thousand euros, classified as current items at the reporting date, can be refinanced and that 10,788 thousand euros of the amount can be refinanced for a period exceeding twelve months (short-term overdrafts of 7,290 thousand euros and long-term loans of 3,498 thousand euros).

Currency risk

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

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

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	EUR	LTL	SEK	2014 UAH
'000				
Cash and cash equivalents	8,791	35	0	7
Current receivables	24,249	33	0	3,583
Non-current receivables	11,211	0	0	0
Total	44,251	68	0	3,590
Current liabilities	57,445	16	0	2,774
Non-current liabilities	4,078	109	0	0
Total	61,523	125	0	2,774
Net exposure	-17,272	-57	0	816

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

	Date	Swedish krona (SEK)	Lithuanian litas (LTL)	Ukrainian hryvnia (UAH)
1 euro (EUR)	31 December 2015	9.1895	-	26.2231
1 euro (EUR)	31 December 2014	-	3.4528	19.2329

Potential impact of changes in estimates

The Group assessed how the weakening or strengthening of the Group's presentation currency, the euro, against the currencies of receivables and liabilities and cash and cash equivalents denominated in foreign currencies 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 assumed that all other variables remain constant.

EUR '000	31 December 2015	31 December 2014
Strengthening of euro by 10%	-2	-5
Weakening of euro by 10%	3	6

Interest rate risk

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

EUR '000	2015	2014
Financial instruments with a fixed interest rate		
Financial assets (loans provided to related parties and legal persons) (notes 9 and 37)	10,183	12,884
Financial liabilities (note 17)	4,490	5,158
Financial instruments with a floating interest rate		
Financial assets (cash and cash equivalents) (note 8)	6,332	8,802
Financial liabilities (including finance lease liabilities) (notes 17 and 18)	16,323	18,575
Net exposure	-9,991	-9,773

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

	31 December 2015	31 December 2014
3 month Euribor	-0.131%	0.078%
6 month Euribor	-0.040%	0.171%
EONIA	-0.127%	0.144%
Bank's base rate	0.490%	0.630%

Potential impact of changes in estimates

An increase or a decrease of 100 basis points in the variable components of the interest rates at the reporting date would increase or reduce subsequent periods' interest expense on interest-bearing financial liabilities by 180 thousand euros (2014: 172 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	2015		2014	
	Carrying amount	Fair value	Carrying amount	Fair value
Cash and cash equivalents (note 8)	6,332	6,332	8,802	8,802
Trade receivables (note 9)	11,519	11,519	13,435	13,435
Retentions receivable (note 9)	97	97	858	858
Receivables from related parties (notes 9, 37)	211	211	2	2
Loans to related parties (notes 9, 37)	10,183	10,188	12,884	12,895
Other receivables (note 9)	1,914	1,914	1,948	1,948
Overdraft liabilities (note 17)	-7,290	-7,290	-7,464	-7,464
Bank and other loans (note 17)	-6,723	-6,744	-9,162	-9,183
Finance lease liabilities (notes 17, 18)	-4,657	-4,657	-4,254	-4,254
Factoring liabilities (note 17)	-2,143	-2,143	-2,853	-2,853
Trade payables (note 19)	-20,812	-20,812	-26,356	-26,356
Payables to related parties (notes 19, 37)	-1,830	-1,830	-10	-10
Other payables (note 20)	-3,657	-3,657	-5,730	-5,730
Unrealised loss		-16		-10

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

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

Average market interest rate	2015	2014
Loans provided	6%	6%
Loans received*	2.38%	2.77%

* 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 2015	31 December 2014
Retained earnings	10,970	11,714
Contingent income tax liability	-2,194	-2,343
Maximum amount that could be distributed as the net dividend	8,776	9,371

The maximum contingent 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 27,374 thousand euros (31 December 2014: 24,927 thousand euros).

Surety commitments

Due to the expiry of underlying obligations, at the reporting date the Group had no surety commitments in respect of the obligations of its associates and non-Group third parties. The parent has issued surety bonds to secure its subsidiaries' operating lease commitments not recognised in the statement of financial position of 430 thousand euros (31 December 2014: 479 thousand euros) and other commitments, arising mostly from subcontracts, of 457 thousand euros (31 December 2014: none).

NOTE 36. Assets pledged as collateral

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

Commercial pledges

At the reporting date, the parent and the subsidiaries had pledged their movable property under commercial pledges which totalled 47,829 thousand euros (31 December 2014: 50,002 thousand euros).

Movable property pledged under commercial pledges does not include cash and cash equivalents, financial assets and assets that can be mortgaged or pledged under other pledges.

Mortgages

At the reporting date, the total value of mortgages encumbering the Group's immovable property (plots and buildings) was 20,467 thousand euros (31 December 2014: 33,364 thousand euros). The parent and the subsidiaries have mortgaged assets of the following classes:

Line item in the statement of financial position (EUR '000)

As at 31 December	2015	2014
Inventories (note 11)	11,075	13,485
Investment property (note 14)	639	639
Property, plant and equipment (land and buildings) (note 15)	767	767
Mortgages that cannot be linked to a specific asset class*	7,986	18,473
Total	20,467	33,364

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

Share pledges

The Group has secured its loan liabilities by pledging its shares in the following subsidiaries: Järva Teed AS (100%) and Hiiu Teed OÜ (100%) (2014: Järva Teed OÜ (100%), Hiiu Teed OÜ (100%) and Eston Ehitus AS (100%).

NOTE 37. Transactions with related parties

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

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

The Group's purchase and sales transactions with related parties

EUR '000	2015		2014	
Counterparty	Purchases	Sales	Purchases	Sales
AS Nordic Contractors	456	0	350	0
Companies of AS Nordic Contractors group	3	10	3	7
Companies related to owners of AS Nordic Contractors	713	0	235	0
Equity-accounted investees	5,549	112	1,505	22
Companies related to members of the council	81	0	101	0
Total	6,802	122	2,194	29

EUR '000	2015		2014	
Nature of transactions	Purchases	Sales	Purchases	Sales
Construction services	5,614	0	1,585	0
Transactions with goods	713	0	235	0
Lease and other services	296	122	332	29
Other transactions	179	0	42	0
Total	6,802	122	2,194	29

Receivables from and liabilities to related parties at period-end (notes 9 and 19)

EUR '000	31 December 2015		31 December 2014	
	Receivables	Liabilities	Receivables	Liabilities
AS Nordic Contractors	0	9	1	9
Companies of AS Nordic Contractors group – loans and interest	263	0	256	0
Companies related to owners of AS Nordic Contractors	0	130	0	0
Associates – receivables and payables	211	1,821	1	1
Associates – loans and interest	8,344	0	10,829	0
Joint venture – loans and interest	1,576	0	1,799	0
Total	10,394	1,960	12,886	10

Receivables from and payables to associates result from ordinary business operations and are unsecured. Receivables and payables are settled on time. The Group has not written down any receivables from associates.

Loan principal and accrued interest receivable from related parties

EUR '000	Related party	Interest rate	Currency	31 December 2015		31 December 2014	
				Loan	Of which interest	Loan	Of which interest
	Kastani Kinnisvara OÜ	10.0%	EUR	42	22	61	15
	Technopolis-2 TOV	6.5%	EUR	929	162	1,243	494
	V.I. Center TOV	6.0%	EUR	7,373	325	9,525	2,397
	Unigate OÜ	8.0%	EUR	1,576	144	1,799	384
	Nordic Contractors Finance & Leasing	5.0%	EUR	263	13	256	6
Total				10,183	666	12,884	3,296
	Of which current portion (note 9)			305	35	2,116	406
	Of which non-current portion (note 9)			9,878	631	10,768	2,890

During the period, the Group recognised interest income on loans to associates of 487 thousand euros (2014: 490 thousand euros), on loans to a joint venture of 115 thousand euros (2014: 114 thousand euros) and on a loan to a company of AS Nordic Contractors group of 13 thousand euros (2014: 9 thousand euros). The loans provided to related parties are not secured except for the loan provided to V.I. Center TOV (note 9).

Other transactions with related parties

In the reporting period, the Group purchased from AS Nordic Contractors the Raudsepa property, located at Raudsepa in Keila city, with its essential parts and accessories. The value of the transaction was 127 thousand euros.

The Group paid Nõmme Private Education Foundation sponsor support of 52 thousand euros (2014: 42 thousand euros). The foundation is related to a member of the Group's council.

In 2015, the Group received from associates a net dividend of 98 thousand euros (2014: nil euros). Information on dividends paid by the Group is provided in note 23.

Remuneration of the council and the board

In 2015, the service fees of the members of the council of Nordecon AS amounted to 139 thousand euros and associated social security charges totalled 46 thousand euros (2014: 141 thousand euros and 47 thousand euros respectively). Expenses on the provision for council members' performance-related pay, made based on the Group's performance indicators, totalled 37 thousand euros and the provision for associated social security charges amounted to 12 thousand euros (2014: 113 thousand euros and 37 thousand euros respectively).

In 2015, the service fees of the members of the board of Nordecon AS amounted to 322 thousand euros and associated social security charges totalled 106 thousand euros (2014: 262 thousand euros and 87 thousand euros respectively). Expenses on the provision for board members' performance-related pay, made based on the Group's performance indicators, totalled 188 thousand euros and the provision for associated social security charges amounted to 62 thousand euros (2014: 387 thousand euros and 128 thousand euros respectively).

Information on share options granted to the members of the board is disclosed in note 25.

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NOTE 38. Parent company's primary financial statements

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

Statement of financial position

EUR '000	31 December 2015	31 December 2014
ASSETS		
Current assets		
Cash and cash equivalents	4,754	6,428
Trade and other receivables	14,067	20,305
Prepayments	1,064	680
Inventories	14,610	15,044
Total current assets	34,495	42,457
Non-current assets		
Investments in subsidiaries	11,971	11,854
Investments in associates and joint ventures	464	40
Investment property	327	327
Trade and other receivables	12,234	10,540
Property, plant and equipment	5,340	5,058
Intangible assets	8,205	8,249
Total non-current assets	38,541	36,068
TOTAL ASSETS	73,036	78,525
LIABILITIES		
Current liabilities		
Loans and borrowings	12,523	14,858
Trade payables	15,493	19,951
Taxes payable	1,032	980
Other payables	9,595	9,440
Deferred income	1,987	1,270
Provisions	504	477
Total current liabilities	41,134	46,976
Non-current liabilities		
Loans and borrowings	1,842	1,761
Provisions	623	630
Total non-current liabilities	2,465	2,391
TOTAL LIABILITIES	43,599	49,367
EQUITY		
Share capital	20,692	20,692
Own (treasury) shares	-1,582	-1,582
Share premium*	1,116	1,116
Statutory capital reserve	2,534	2,534
Retained earnings	6,677	6,398
TOTAL EQUITY	29,437	29,158
TOTAL LIABILITIES AND EQUITY	73,036	78,525

* The share premium recognised in the parent's statement of financial position is 569 thousand euros larger than in the Group's statement of financial position. This is attributable to the parent's merger with the subsidiary Nordecon Infra AS in 2010. The subsidiary's statement of financial position included share premium acquired on an intra-Group business combination of entities under common control. In the consolidated statement of financial position that portion of share premium (569 thousand euros) has been eliminated due to the above reason.

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Statement of comprehensive income

EUR '000	2015	2014
Revenue	101,756	100,163
Cost of sales	-95,262	-93,806
Gross profit	6,494	6,357
Marketing and distribution expenses	-343	-487
Administrative expenses	-3,358	-4,021
Other operating income	155	158
Other operating expenses	-34	-118
Operating profit	2,914	1,889
Finance income	1,119	926
Finance costs	-2,646	-1,008
Net finance costs	-1,527	-82
Profit before income tax	1,387	1,807
Income tax expense	-185	-177
Profit for the year	1,202	1,630
Total comprehensive income for the year	1,202	1,630

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Statement of cash flows

EUR '000	2015	2014
Cash flows from operating activities		
Cash receipts from customers ⁵	125,831	121,197
Cash paid to suppliers ⁶	-108,802	-104,677
Cash paid to and for employees	-10,940	-9,921
VAT paid	-3,223	-2,478
Income tax paid	0	-177
Net cash from operating activities	2,866	3,944
Cash flows from investing activities		
Paid on acquisition of non-current assets	-288	-306
Proceeds from sale of non-current assets	111	0
Capital contributions to subsidiaries and joint ventures	-472	-736
Loans provided	-274	-1,040
Repayment of loans provided	170	0
Interest received	366	2
Dividends received	150	33
Net cash used in investing activities	-237	-2,047
Cash flows from financing activities		
Proceeds from loans received	868	6,346
Repayment of loans received	-2,703	-9,393
Payment of finance lease principal	-1,032	-735
Interest paid	-515	-549
Dividends paid	-923	-922
Other payments made	2	-169
Net cash used in financing activities	-4,303	-5,422
Net cash flow	-1,674	-3,525
Cash and cash equivalents at beginning of year	6,428	9,953
Decrease in cash and cash equivalents	-1,674	-3,525
Cash and cash equivalents at end of year	4,754	6,428

⁵ Line item *Cash receipts from customers* includes VAT paid by customers.

⁶ Line item *Cash paid to suppliers* includes VAT paid.

Statement of changes in equity

EUR '000	Share capital	Own shares	Share premium	Statutory capital reserve	Retained earnings	Total
Balance at 31 December 2013	19,657	0	569	2,534	5,690	28,450
Increase of share capital	1,035	-1,582	547	0	0	0
Profit for the year	0	0	0	0	1,630	1,630
Dividend distribution	0	0	0	0	-922	-922
Balance at 31 December 2014	20,692	-1,582	1,116	2,534	6,398	29,158
Carrying amount of interests under control and significant influence	-	-	-	-	-	-11,894
Value of interests under control and significant influence under the equity method	-	-	-	-	-	9,026
Adjusted unconsolidated equity at 31 December 2014	-	-	-	-	-	26,290
Balance at 31 December 2014	20,692	-1,582	1,116	2,534	6,398	29,158
Profit for the year	0	0	0	0	1,202	1,202
Dividend distribution	0	0	0	0	-923	-923
Balance at 31 December 2015	20,692	-1,582	1,116	2,534	6,677	29,437
Carrying amount of interests under control and significant influence	-	-	-	-	-	-12,435
Value of interests under control and significant influence under the equity method	-	-	-	-	-	7,554
Adjusted unconsolidated equity at 31 December 2015	-	-	-	-	-	24,556

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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 2015 and confirms that:

- the policies applied on the preparation of the consolidated financial statements comply with International Financial Reporting Standards as adopted by the European Union (IFRS EU);
- the consolidated financial statements, which have been prepared in accordance with financial reporting standards effective for the period, give a true and fair view of the assets, liabilities, financial position, financial performance, and cash flows of the Group consisting of the parent company and other consolidated entities.

Jaano Vink
Chairman of the Board
21 April 2016

Avo Ambur
Member of the Board
21 April 2016

Erkki Suurorg
Member of the Board
21 April 2016

Statement by the Council

The council has reviewed the annual report prepared by the board, which consists of the directors' report and the consolidated financial statements, and the accompanying independent auditors' report and profit allocation proposal and has approved the annual report for presentation to the shareholders' general meeting.

Toomas Luman
Chairman of the Council
27 April 2016

Andri Hõbemägi
Member of the Council
27 April 2016

Vello Kahro
Member of the Council
27 April 2016

Sandor Liive
Member of the Council
27 April 2016

Meelis Milder
Member of the Council
27 April 2016



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 2015, 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 40 to 96.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Nordecon AS as at 31 December 2015, 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

We draw attention to note 5 to the consolidated financial statements, which describes the significant deterioration in Ukraine's political and economic situation, and management's assessment of the potential impact of the events in Ukraine on the Group's operating activities and the consolidated financial statements as at and for the year ended 31 December 2015. We further draw attention to note 9, which outlines the principal assumptions used in the assessment of the recoverable values of long-term loans provided to the Ukrainian associates stated at 8,302 thousand euros as at 31 December 2015 and the material sensitivity of the determined recoverable values to the changes in these assumptions. According to the assessment of the Group's management, all assumptions applied in the valuation of the loans were realistic but the events referred to in note 5 could adversely affect the outcome of these assumptions and the Group's results and financial position in a manner not currently determinable. Our opinion is not qualified in respect of this matter.

Tallinn, 26 April 2016

Andris Jegers
Certified Public Accountant No.171
KPMG Baltics OÜ
Audit Firm Activity Licence No. 17

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Profit allocation proposal

Distributable profit of Nordecon AS:

	EUR '000
Retained earnings of prior years	10,791
Profit for 2015	179
Total distributable profit at 31 December 2015	10,970

The board makes the following proposals:

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

Jaano Vink Chairman of the Board

21 April 2016

Avo Ambur Member of the Board

21 April 2016

Erkki Suurorg Member of the Board

21 April 2016