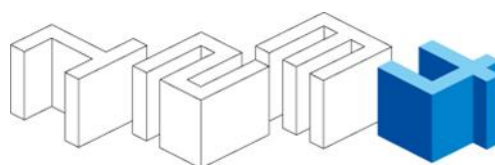




**Financial report for the fourth  
quarter and twelve months of 2016**  
(unaudited)

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## Financial report for the fourth quarter and twelve months of 2016 (unaudited)

<b>Business name</b>	Nordecon AS
<b>Registry number</b>	10099962
<b>Address</b>	Pärnu mnt 158/1, 11317 Tallinn
<b>Domicile</b>	Republic of Estonia
<b>Telephone</b>	+ 372 615 4400
<b>E-mail</b>	<a href="mailto:nordecon@nordecon.com">nordecon@nordecon.com</a>
<b>Corporate website</b>	<a href="http://www.nordecon.com">www.nordecon.com</a>
<b>Core business lines</b>	Construction of residential and non-residential buildings (EMTAK 4120) Construction of roads and motorways (EMTAK 4211) Road maintenance (EMTAK 4211) Construction of utility projects for fluids (EMTAK 4221) Construction of water projects (EMTAK 4291) Construction of other civil engineering projects (EMTAK 4299)
<b>Financial year</b>	1 January 2016 – 31 December 2016
<b>Reporting period</b>	1 January 2016 – 31 December 2016
<b>Council</b>	Toomas Luman (chairman of the council), Andri Hõbemägi, Vello Kahro, Sandor Liive, Meelis Milder
<b>Board</b>	Jaano Vink (chairman of the board), Avo Ambur, Erkki Suurorg
<b>Auditor</b>	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 which support the core business such as road maintenance, concrete works and other services that provide added value, improve our operating efficiency and help manage risks.

Nordecon's specialists offer high-quality integrated solutions in the construction of commercial, residential, industrial and public buildings as well as infrastructure – roads, landfill sites, utility networks and port facilities. In addition, 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.



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## 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 revenue.
- Operating margin for the 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%.



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## Changes in the Group's business operations

### Changes in the Group's Estonian operations

There were no changes in our Estonian operations during the period under review. 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 and Kose maintenance areas 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.

### Changes in the Group's foreign operations

#### Ukraine

The conflict between Ukraine and Russia, which broke out at the beginning of 2014, continued to influence Ukraine's political and economic environment also in 2016. Economic uncertainty weakened the Ukrainian hryvnia against the euro. However, compared with the year before the weakening of the hryvnia slowed. In recent years, our bidding activities in Ukraine have been intentionally conservative, with work undertaken 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 the workforce during earlier periods of recession already and have accepted only contracts where the risks have been reasonable under the circumstances. The situation in the Kiev region has stabilised, considering the backdrop, and companies have adapted to the new environment. Our operating volumes of 2016 were comparable to the year before.

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

#### Finland

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

#### Sweden

In contrast to 2015 when the main focus was on preparatory activities, in 2016 we began providing construction services: we performed two contracts where we acted as the general contractor. In the future, we are going to focus on developing the organisation and active sales in order to win new contracts.

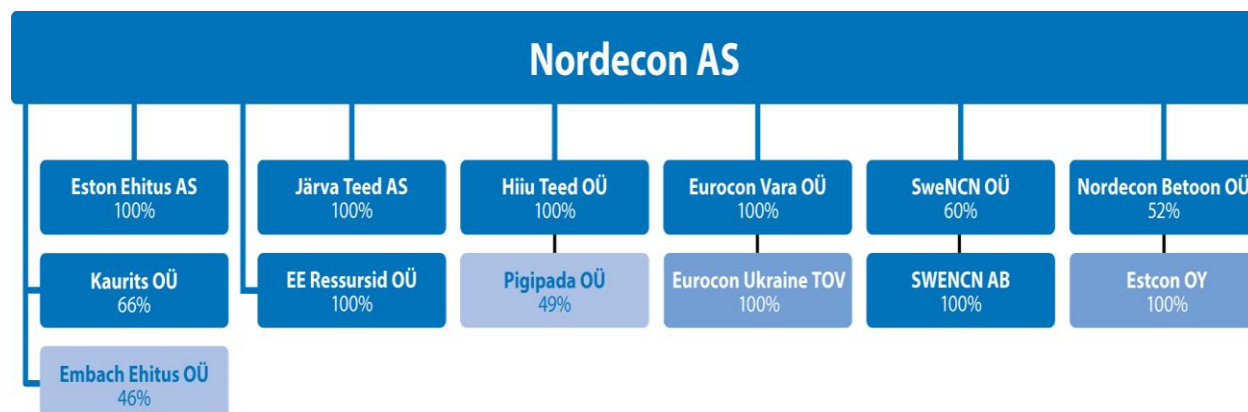
#### Latvia and Lithuania

During the period, there were no changes in our Latvian or Lithuanian operations. We have no subsidiaries incorporated in Latvia and no construction contracts in progress in Latvia or Lithuania. The activities of our Lithuanian subsidiary, Nordecon Statyba UAB, have been suspended.



## Group structure

The Group's structure at 31 December 2016, including interests in subsidiaries and associates\*



\* The structure does not include the subsidiaries OÜ Eesti Ehitus, OÜ Aspi, OÜ Linnaehitus, Infra Ehitus OÜ, OÜ Paekalda 2, OÜ Paekalda 3, OÜ Paekalda 7, OÜ Paekalda 9, Kalda Kodu OÜ, Magasini 29 OÜ, Eurocon OÜ, Kastani Kinnisvara OÜ, Eurocon Bud TOV, Instar Property Ukraine TOV, Nordecon Statyba UAB and the associates Unigate OÜ, Technopolis-2 TOV and V.I. Center TOV which currently do not engage in any significant business activities. The first three were established to protect former business names. Nor does the structure include investments in entities in which the Group's interest is less than 20%.

### Disposal of a subsidiary

In May 2016, Nordecon Betoon OÜ (in which the Group's ownership interest is 52%) sold its wholly-held subsidiary OÜ Mapri Projekt, which was dormant.

### Acquisition of an additional interest in a subsidiary

On 3 October 2016, Nordecon AS acquired an additional 4% stake in Eurocon OÜ, increasing its ownership interest to 100%.



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## Financial review

### Financial performance

Nordecon Group ended 2016 with a gross profit of 10,979 thousand euros (2015: 9,031 thousand euros) and a gross margin of 6.0% (2015: 6.2%). Due to increasingly stiffer competition, the Group's gross margin decreased slightly year on year. The margin weakened due to a sharp fall in the gross margin of the Infrastructure segment which could not be offset by a rise in the gross margin delivered by the Buildings segment. In 2016, the gross margin of the Infrastructure segment was 3.6% and that of the Buildings segment 7.5%. The respective figures for 2015 were 8.6% and 6.7%. Although we anticipated a downtrend in the margins of the Infrastructure segment already in the middle of the financial year, the result is far from satisfactory. The key reasons for the margin decline are the facts that during the winter season there is a lack of demand for the segment's services (major earthworks, etc.) and that due to its business logic the share of the segment's fixed costs is large. Another factor, which had an impact, was the wintry weather in November and December which caused quite a large volume of work which originally should have been completed in 2016 to be postponed to 2017. In response to continuously fierce competition (and bleaker prospects) in the infrastructure market, we decided to restructure our operations: at the end of 2016 and the beginning of 2017 we merged Hiiu Teed OÜ, Järva Teed AS and Nordecon AS's road maintenance and machinery division to improve the Infrastructure segment's operating efficiency and the Group's overall competitiveness.

Administrative expenses for 2016 totalled 6,106 thousand euros. Compared with the year before, administrative expenses grew (2015: 5,026 thousand euros) but the ratio of administrative expenses to revenue was 3.3% (2015: 3.5%), remaining below the target ceiling of 4% of revenue. The rise in administrative expenses is mainly attributable to Nordecon's expansion to the Swedish market

Operating profit for the period was influenced by the write-down of other receivables by 409 thousand euros (see note 12) due to the entry into force of the final judgement on the Group's dispute with Teede REV-2 AS over the performance of the Koidula border crossing point contract in 2010 when our then venture partner ceased to fulfil its obligations and we had to complete the contract on our own. Although in essence the outcome of the litigation which ended in June was positive for Nordecon, some of our claims were dismissed. We ended the year with an operating profit of 4,208 thousand euros (2015: 3,933 thousand euros), which is an improvement on 2015 but below the strategic target for the year. EBITDA for 2016 amounted to 6,017 thousand euros (2015: 5,769 thousand euros).

Although in 2016 exchange losses recognised due to adverse movements in the euro/Ukrainian hryvnia exchange rate were smaller than a year earlier, their impact on our net profit was still noticeable. During the period, the Ukrainian currency weakened by around 8%, 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 195 thousand euros (2015: 574 thousand euros). The same movements in the exchange rate increased the translation reserve in equity by 191 thousand euros (2015: 587 thousand euros) and the net effect of the exchange differences on the Group's net assets was a loss of 4 thousand euros (2015: a gain of 13 thousand euros).

Thus, the Group's net profit amounted to 3,933 thousand euros (2015: 174 thousand euros), of which net profit attributable to owners of the parent, Nordecon AS, was 3,044 thousand euros (2015: 179 thousand euros).

### Cash flows

In 2016, our operating activities generated a net cash inflow of 7,937 thousand euros (2015: an inflow of 2,684 thousand euros). The factors which have the strongest impact on our operating cash flow are a mismatch between the settlement terms agreed with customers and subcontractors and the fact that neither public nor private sector customers are required to make advance payments while we have to make prepayments to subcontractors, materials suppliers, etc. We deal actively with equalising the settlement terms agreed with customers and suppliers, mostly through factoring. In addition to factoring accounts receivable, we have concluded a frame agreement for factoring accounts payable, which also enables our subcontractors who do not have sufficient credit standing to obtain a factoring limit from a financing institution to use our factoring facility.

Investing activities produced a net cash inflow of 107 thousand euros (2015: an outflow of 220 thousand euros). The largest items were payments for property, plant and equipment and intangible assets of 173 thousand euros





(2015: 501 thousand euros) and proceeds from sale of property, plant and equipment of 160 thousand euros (2015: 337 thousand euros). Dividends received amounted to 153 thousand euros (2015: 108 thousand euros).

Financing activities generated a net cash outflow of 4,579 thousand euros (2015: an outflow of 4,934 thousand euros). Our financing cash flow is strongly influenced by loan and lease transactions. Proceeds from loans received amounted to 2,847 thousand euros, consisting of use of overdraft facilities and development loans (2015: 2,099 thousand euros). Loan repayments totalled 2,262 thousand euros, consisting of scheduled repayments of long-term investment and development loans (2015: 3,449 thousand euros). Investments in road construction equipment and a new asphalt concrete plant increased finance lease payments which totalled 2,478 thousand euros (2015: 1,726 thousand euros). Dividends paid amounted to 1,068 thousand euros (2015: 1,091 thousand euros) and in connection with the reduction of Nordecon AS's share capital shareholders were distributed a total of 923 thousand euros.

At 31 December 2016, the Group's cash and cash equivalents totalled 9,786 thousand euros (31 December 2015: 6,332 thousand euros). Management's commentary on liquidity risks is presented in the chapter *Description of the main risks*.

## Key financial figures and ratios

Figure/ratio	2016	2015	2014
Revenue (EUR '000)	183,329	145,515	161,289
Revenue change	26.0%	-9.8%	-7.1%
Net profit (EUR '000)	3,933	174	2,298
Net profit attributable to owners of the parent (EUR '000)	3,044	179	1,956
Weighted average number of shares	30,756,728	30,756,728	30,756,728
Earnings per share (EUR)	0.10	0.01	0.06
Administrative expenses to revenue	3.3%	3.5%	3.5%
EBITDA (EUR '000)	6,017	5,769	5,585
EBITDA margin	3.3%	4.0%	3.5%
Gross margin	6.0%	6.2%	6.1%
Operating margin	2.3%	2.7%	2.5%
Operating margin excluding gain on asset sales	2.2%	2.4%	2.3%
Net margin	2.1%	0.1%	1.4%
Return on invested capital	8.5%	2.1%	5.8%
Return on equity	10.6%	0.5%	6.4%
Equity ratio	38.6%	40.1%	37.3%
Return on assets	4.2%	0.2%	2.3%
Gearing	16.7%	25.5%	24.8%
Current ratio	1.20	1.03	1.02
<b>As at 31 December</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
Order book (EUR '000)	131,335	125,698	83,544

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

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

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

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

EBITDA margin = (EBITDA / revenue) \* 100

Gross margin = (gross profit / revenue) \* 100

Operating margin = (operating profit / revenue) \* 100

Operating margin excluding gain on asset sales = ((operating profit - gain on sales of non-current assets - gain on sales of real estate) /

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

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

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

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

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

Gearing = ((interest-bearing liabilities - cash and cash equivalents) / (interest-bearing liabilities + equity)) \* 100

Current ratio = total current assets / total current liabilities



revenue) \* 100

## Performance by geographical market

In 2016, Nordecon earned around 7% of its revenue outside Estonia compared with 4% the year before. The contribution of foreign markets has increased through revenue generated in Sweden. The contribution of the Ukrainian market has remained relatively stable. Finnish revenues resulted from concrete works in the building construction segment.

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

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, conditions in some of 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. Our vision of our foreign operations is described in the chapter *Outlooks of the Group's geographical markets*.

## Performance by business line

### Segment revenues

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 in more challenging circumstances where the operating volumes of some sub-segments may fall sharply.

Nordecon's revenue for 2016 amounted to 183,329 thousand euros, a roughly 26% increase on the 145,515 thousand euros generated in 2015. The shrinkage of the infrastructure construction market also affected our revenue structure. As anticipated, the Buildings segment improved its revenue, posting growth of around 43%, primarily thanks contracts secured in the apartment buildings and the public buildings sub-segments. The revenue of the Infrastructure segment, which was mostly earned in the road construction and maintenance sub-segment, decreased by around 13% year on year. The decline resulted from a lack of large-scale road construction projects with a reasonable estimated profit margin. In the comparative period, we had two major road construction projects which generated a substantial amount of revenue (construction package 5 of the Tartu western bypass and the Keila-Valkse section of national road no. 8 Tallinn-Paldiski, km 24.9-29.5). However, mostly thanks to a new asphalt concrete plant acquired at the beginning of the year, we were able to more than double our asphalt concrete sales. Revenue from the sale of asphalt concrete grew to 2,062 thousand euros (2015: 899 thousand euros).

In 2016, the Buildings segment and the Infrastructure segment generated revenue of 134,555 thousand euros and 41,447 thousand euros respectively. The corresponding figures for 2015 were 94,341 thousand euros and 47,628



thousand euros (see note 8). Our order book has a similar structure: at the year-end 76% of contracts secured but not yet performed was attributable to the Buildings segment (2015: 72%). Nordecon's revenue structure reflects quite fairly the overall situation in the Estonian construction market.

<b>Operating segments*</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
Buildings	73%	64%	65%
Infrastructure	27%	36%	35%

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

In 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 financial statements, allocation is based on the subsidiaries' main field of activity (as required by IFRS 8 *Operating Segments*). In the financial statements, the results of a subsidiary that is primarily engaged in infrastructure construction are presented in the Infrastructure segment. In 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 interim report based on the nature of the work.



## Sub-segment revenues

Compared with the year before, the revenue structure of the Buildings segment changed considerably. In 2016, the segment's strongest revenue contributors were the apartment buildings and the public buildings sub-segments.

Most of our apartment building revenue results from general contracting. In Estonia, a substantial share of our apartment building projects is located in Tallinn. In 2016, the main revenue contributors were the three phases of the Pikksilma homes in Kadriorg and the Meerhof 2.0 apartment complex at Pirita tee 20a. The contributions of foreign markets sustain growth. In Ukraine, we continued to build the Lepse residential quarter in Kiev, which is close to completion, and a residential quarter in the city of Brovary in the Kiev region. In Sweden, we were building two apartment buildings in Stockholm.

The contribution of our own development projects in Tartu and Tallinn (reported in the apartment buildings sub-segment) continues to increase slowly but surely. In 2016, our development projects generated revenue of 5,216 thousand euros (2015: 4,216 thousand euros). We have completed 5 apartment buildings in the first four development phases of our Tammelinn project in Tartu and sales have been excellent. By the reporting date, only 2 completed apartments were still for sale. At the beginning of 2017, we began building phase V which comprises a four-floor apartment building with 24 apartments ([www.tammelinn.ee](http://www.tammelinn.ee)). By the year-end, we had also sold 16 of the 20 apartments in the first three phases of our Magasini 29 development project in Tallinn, 5 of them in 2016 ([www.magasini.ee](http://www.magasini.ee)). We continue to build the development's fifth and last terraced house. In September 2016, we began building two apartment buildings with a total of 30 apartments in Hane street in Tallinn. In carrying out our development activities, we monitor potential risks in the housing development market that stem from rapid growth in the supply of new housing as well as a relative price increase with due care.

The key factor which influenced the performance of the public buildings sub-segment was growth in the state's investment in national defence. In 2016, we completed the construction of the Piusa border guard station, a barracks at the Tapa military base, and a building complex at the Ämari air base. In addition, we delivered to the customer the new building of Järveküla school. We continue the design and construction of the Lintsi warehouse complex and the reconstruction of Ugala Theatre in Viljandi.

The volumes of the commercial buildings sub-segment, which used to dominate the Buildings segment for a long time, have declined considerably. We anticipated the shrinkage already at the end of 2015. In 2016, we completed and delivered on time the Veerenni office building and the retail and leisure complex Arsenali Keskus in Tallinn. We continue to build the office and retail complex Viimsi Äritare and renovate the machinery hall building of the historical Luther furniture factory and have started to build an office building at Lõdtsa 12 in Ülemiste City. Based on our order book, we expect the commercial buildings sub-segment to deliver certain revenue growth in 2017.

Our industrial and warehouse facilities revenues grew year on year. Private investment in industrial and warehouse buildings increased. During the period, our largest projects were the construction of a warehouse for Riigiressursside Keskus (the state resource centre) in Tallinn, a production facility for Vecta Design in Pärnu, KEVILI South Terminal (a cereals storage and handling complex) and an extension to the Smarten warehouse. We continue to build production and warehouse facilities for Harmet at Kumna, near Tallinn.

Revenue breakdown in Buildings segment	2016	2015	2014
Apartment buildings	34%	22%	18%
Public buildings	30%	16%	7%
Industrial and warehouse facilities	20%	12%	33%
Commercial buildings	16%	50%	42%

Similarly to previous years, in 2016 the main revenue source in the Infrastructure segment was road construction where we had mostly medium-sized and small projects. The largest road construction projects were the reconstruction of the Meoma-Alatskivi and the Rannamõisa-Kloogaranna road sections and the reconstruction of Majaka and Logi streets in Tallinn. Work on the latter will continue in 2017. We continue to render road maintenance services in the Järva and Hiiu counties and the Keila and Kose maintenance areas of the Harju county. Kose is a new area, where work started in February 2016. We also provided the State Forest Management Centre with forest road improvement services. We believe that road construction will remain the main revenue source in the Infrastructure segment also in 2017 but it is unlikely that the sub-segment's revenue would grow substantially compared to 2016.



The contracts secured by our environmental engineering and other engineering (utility network construction) sub-segments are small and growth of the sub-segments is unlikely. At present, there is no sign of any major hydraulic engineering projects to be announced in the specialist engineering sub-segment and demand for other complex engineering work also tends to be irregular.

<b>Revenue breakdown in Infrastructure segment</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
Road construction and maintenance	86%	81%	72%
Other engineering	9%	14%	19%
Environmental engineering	5%	4%	7%
Specialist engineering (including hydraulic engineering)	0%	1%	2%

## Order book

At 31 December 2016, the Group's order book (backlog of contracts signed but not yet performed) stood at 131,335 thousand euros, a 4% increase year on year. Altogether, in 2016 the Group secured new contracts of 158,152 thousand euros.

<b>As at 31 December</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
Order book (EUR '000)	131,335	125,698	83,544

At the reporting date, contracts secured by the Buildings segment and the Infrastructure segment accounted for 76% and 24% of the Group's order book respectively (31 December 2015: 72% and 28% respectively).

Compared with 2015, the order book of the Buildings segment has grown by around 9%. The order book of the commercial buildings sub-segment has increased and the order book of the industrial and warehouse facilities sub-segment has decreased. The order books of the apartment buildings and the public buildings sub-segments have remained stable. The order book is the largest in the apartment buildings sub-segment where work secured but not yet performed includes not only Estonian projects but also projects secured in Ukraine and Sweden. We continue to build five apartment buildings in the city of Brovary in the Kiev region in Ukraine and two apartment buildings in Sweden. In Tallinn we continue to build the apartment buildings at Pirita tee 20a (phases I and II) and Virbi 10 and in the fourth quarter we secured a contract for the construction of phase I of an apartment complex at Sõjakooli 12. After some decline, the order book of the commercial buildings sub-segment has started to grow. During the year, we signed large-scale contracts for the construction of Viimsi Äritare, the renovation of the machinery hall building of the historical Luther furniture factory at Vana-Lõuna 39 and the construction of a commercial building in the Rotermann quarter in Tallinn. In the fourth quarter, we signed contracts for the construction of the Martens building in the centre of Pärnu and an office building at Löötsa 12 in Ülemiste City in Tallinn. A large share of the order book of the public buildings sub-segment is made up of the construction of a depot, armoured vehicle infrastructure, a canteen and a barracks at the Tapa military base and the reconstruction of Ugala Theatre in Viljandi. The largest project in the order book of the industrial and warehouse facilities sub-segment is the construction of production and warehouse facilities for Harmet.

Compared with 2015, the order book of the Infrastructure segment has decreased by 8%. 90% of the segment's order book is made up of work secured by the road construction and maintenance sub-segment whose order book has remained more or less stable compared with the year before. A significant project in the road construction portfolio is the contract signed for building a 2+1 road (a road with passing lanes) on the Ääsmäe-Kohatu section of the Tallinn-Pärnu-Ikla road which was secured in the fourth quarter. We continue to provide road maintenance services in four road maintenance areas: Keila, Järva, Hiiu, and Kose. According to our estimates, in 2017 the volume of public investments will not increase substantially, compared with 2016. Thus, we expect that in 2017 the revenue of the Infrastructure segment will remain more or less at the same level as in 2016 (for further information, see the *Business risks* section of the chapter *Description of the main risks*).

However, in the light of the size of our order book and developments in our chosen markets, we are moderately optimistic about our business volumes in 2017. In an environment of stiff competition, we pursue the policy of avoiding unjustified risks whose realisation in the contract performance phase would probably have an adverse impact on our results. Instead, we prefer to keep costs under control and focus on projects with positive prospects.



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Between the reporting date (31 December 2016) and the date of release of this report, Group companies have secured additional construction contracts in the region of 9,851 thousand euros.



## People

### Staff and personnel expenses

In 2016, the Group (the parent and the subsidiaries) employed, on average, 684 people including 381 engineers and technical personnel (ETP). The number of ETP has increased year on year in connection with growth in the Estonian operations of the Buildings segment and the Group's expansion to Sweden. The number of workers has decreased due to shrinkage in the portfolio of self-performed work. The overall level of staff has remained stable year on year.

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

	2016	2015	2014
ETP	381	356	357
Workers	303	334	375
<b>Total average</b>	<b>684</b>	<b>690</b>	<b>732</b>

Our personnel expenses for 2016 including all taxes totalled 20,401 thousand euros (2015: 18,248 thousand euros), a roughly 12% increase year on year. The growth in personnel expenses is attributable to the Group's expansion to the Swedish market, selective pay-rises, and performance bonuses.

The service fees of the members of the council of Nordecon AS for 2016 amounted to 138 thousand euros and associated social security charges totalled 45 thousand euros (2015: 139 thousand euros and 46 thousand euros respectively). The provision for the council members' performance bonuses, made based on the Group's performance indicators, amounted to 47 thousand euros and associated social security charges totalled 16 thousand euros (2015: 37 thousand euros and 12 thousand euros respectively).

The service fees of the members of the board of Nordecon AS amounted to 350 thousand euros and associated social security charges totalled 116 thousand euros (2015: 322 thousand euros and 106 thousand euros respectively). The provision for the board members' performance bonuses, made based on the Group's performance indicators, amounted to 243 thousand euros and associated social security charges totalled 80 thousand euros (2015: 188 thousand euros and 62 thousand euros respectively).

### Labour productivity and labour cost efficiency

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

	2016	2015	2014
Nominal labour productivity (rolling), (EUR '000)	267.8	210.9	220.4
Change against the comparative period	27%	-4.3%	-4.0%
Nominal labour cost efficiency (rolling), (EUR)	9.0	8.0	8.0
Change against the comparative period	12.7%	-0.6%	-4.8%

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

Nominal labour cost efficiency (rolling) = (past four quarters' revenue) / (past four quarters' personnel expenses)

Nominal labour productivity and labour cost efficiency increased year on year, mainly through revenue growth.



## Share and shareholders

### Share information

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

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

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

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

### Reduction of share capital

On 25 May 2016 the annual general meeting of Nordecon AS adopted a resolution on the reduction of the company's share capital and on 16 September 2016 the reduction was registered at the Commercial Register.

Based on the decision of the annual general meeting, the company's share capital was reduced by 971,264.49 euros, from 20,691,704.91 euros to 19,720,440.42 euros. Share capital was reduced by reducing the book value of the shares by 0.03 euros per share. The number of the company's shares remained the same and the book value of the shares decreased in proportion to the reduction of share capital. After reduction, the company's share capital amounts to 19,720,440.42 euros, consisting of 32,375,483 shares with no par value.

The reduction of share capital of 922,701.84 euros (0.03 euros per share) was paid out to shareholders on 19 December 2016. No payments were made to Nordecon AS for own shares held by the company.



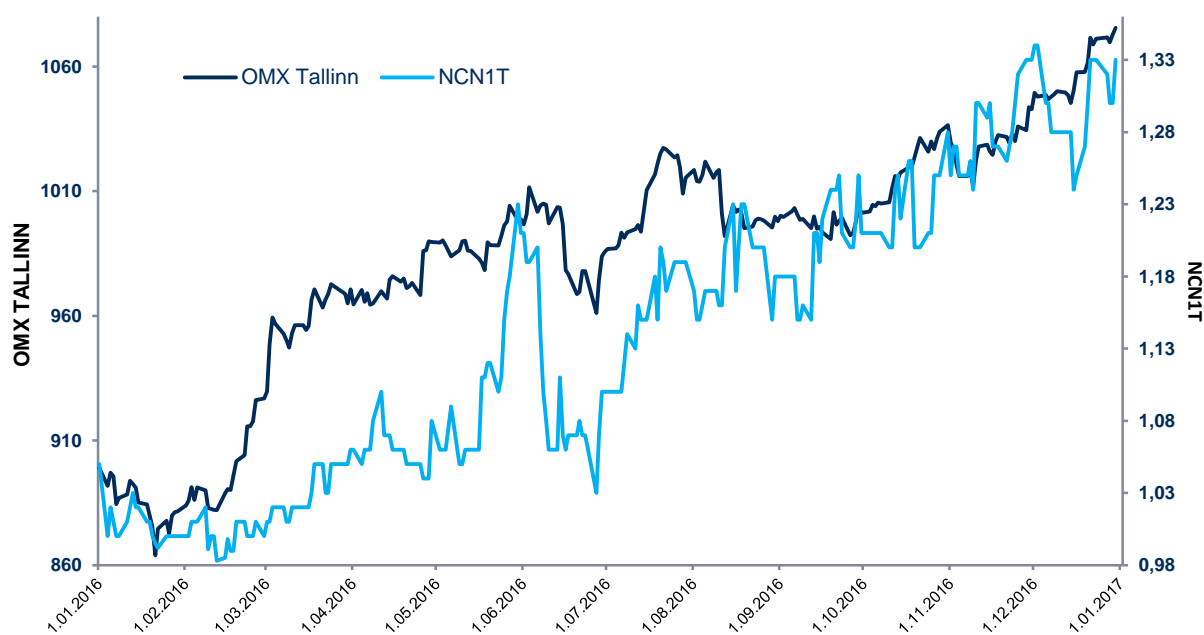


### Movements in the price and turnover of the Nordecon AS share in 2016

Movements in share price are in euros and daily turnover in the bar chart is in thousands of euros



### Movement of the share price compared with the OMX Tallinn index in 2016



Index/equity	1 January 2016*	31 December 2016	+/-
OMX Tallinn	898.99	1,075.50	19.63%
NCN1T	EUR 1.05	EUR 1.33	26.67%

\* Closing price on the NASDAQ OMX Tallinn Stock Exchange at 31 December 2015



## Summarised trading results

### Share trading history (EUR)

Price	2016	2015	2014
Open	1.03	1.02	1.05
High	1.35	1.14	1.09
Low	0.98	0.98	0.93
Last closing price	1.33	1.05	1.06
Traded volume (number of securities traded)	1,162,430	1,656,376	1,799,724
Turnover, in millions	1.30	1.71	1.85
Listed volume (31 December), in thousands	32,375	32,375	32,375
Market capitalisation (31 December), in millions	43.06	33.99	34.32

## Shareholder structure

### Largest shareholders of Nordecon AS at 31 December 2016

Shareholder	Number of shares	Ownership (%)	interest
AS Nordic Contractors	16,507,464		50.99
Luksusjaht AS	4,225,282		13.05
ING Luxembourg S.A.	2,007,949		6.20
SEB Pank AS clients	1,036,040		3.20
Rondam AS	1,000,000		3.09
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	255,000		0.79
Genadi Bulatov	250,600		0.77

### Shareholder structure of Nordecon AS at 31 December 2016

	Number of shares	Ownership (%)	interest
Shareholders with interest exceeding 5%	3		70.24
Shareholders with interest from 1% to 5%	5		10.45
Shareholders with interest below 1%	1,501		14.31
Holder of own (treasury) shares	1		5.00
<b>Total</b>	<b>1,510</b>		<b>100</b>

### Shares controlled by members of the council of Nordecon AS at 31 December 2016

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

\* Companies controlled by the individual

### Shares controlled by members of the board of Nordecon AS at 31 December 2016

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
<b>Total</b>		<b>70,243</b>	<b>0.22</b>



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\* 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. 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 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.



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## Description of the main risks

### Business risks

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

Competition continues to be stiff in all segments of the construction market and in 2017 public investment is not likely to grow substantially compared with 2016. Thus, builders' bid prices are under strong competitive pressure while the prices of construction inputs on the whole have not changed noticeably. Even though unhealthy aggressive competition in building construction has started to recede thanks to growth in the volume of projects put out to tender, the slump in infrastructure construction is fuelling fierce competition for the limited number of contracts. Bidders increasingly include not only well-known general contractors but also former subcontractors, a trend attributable to the state and local governments' policy to lower the qualification requirements of public procurement tenders, which sometimes results in the sacrifice of quality to the lowest possible price. 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. In setting our prices in such an environment, we focus on ensuring a reasonable balance of contract performance risks and tight cost control.

Demand for construction services continues to be strongly influenced by the volume of public investment, which in turn depends on the co-financing received from the EU structural funds. Total support allocated to Estonia during the current EU budget period (2014-2020) amounts to 5.9 billion euros, exceeding the figure of the previous financial framework, but the amounts earmarked for construction work are substantially smaller. In the construction sector, the allocations of the current EU budget period began to have a limited impact in the second half of 2016 only but in subsequent periods the process is expected to accelerate.

In the light of the above factors, we see some opportunities for achieving year-on-year business growth in 2017: a certain improvement in our Estonian operations is increasingly supported by positive developments in our chosen foreign markets. Our action plan foresees using our resources (including some of the labour released by 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.

Our business is also influenced by seasonal changes in weather conditions, which have the strongest impact on infrastructure construction where a lot of work is done outdoors (road and port construction, earthwork, etc.). To disperse the risk, we secure road maintenance contracts that generate year-round business. Our strategy is to counteract the seasonality of infrastructure operations with building construction that is less exposed to seasonal fluctuations. Our long-term goal is to be flexible and keep our two operating segments in relative balance (see also the chapter *Performance by business line*). Where possible, our entities implement 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 due until the contract has been completed. To remedy construction deficiencies which may be detected during the warranty period, Group companies create warranty provisions based on their historical experience. At 31 December 2016, the Group's warranty provisions (including current and non-current ones) totalled 1,212 thousand euros (31 December 2015: 1,184 thousand euros).

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



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## Financial risks

### Credit risk

During the period, we recognised credit losses of 547 thousand euros of which 138 thousand euros resulted from the write-down of trade receivables and 409 thousand euros from the write-down of other receivables (see also the chapter *Financial performance*). In the comparative period, we did not incur any credit losses. The overall credit risk exposure of receivables is low because the solvency of all prospective customers is evaluated, the share of public sector customers is large and customers' settlement behaviour is consistently monitored. The main indicator of the realisation of credit risk is settlement default that exceeds 180 days along with no activity on the part of the debtor that would confirm the intent to settle.

### Liquidity risk

At the reporting date, the Group's current assets exceeded its current liabilities 1.2-fold (31 December 2015: 1.03-fold). Although the current ratio has improved compared with the previous year-end, the Group remains exposed to higher than usual liquidity risk. The key factor which influences the current ratio is the classification of the Group's loans to its Ukrainian associates as non-current assets.

Due to the strained political and economic situation in Ukraine, we believe that the Group's Ukrainian investment properties cannot be realised in the short term. Accordingly, as at the reporting date the Group's loans to its Ukrainian associates of 8,637 thousand euros are classified as non-current assets.

For better cash flow management, we use overdraft facilities and factoring by which we counter the mismatch between the settlement terms agreed with customers and subcontractors. Under IFRS EU, borrowings have to be classified into current and non-current based on contract terms in force at the reporting date. At 31 December 2016, short-term borrowings totalled 6,297 thousand euros (31 December 2015: 15,715 thousand euros). The figure consists of overdraft liabilities of 3,591 thousand euros (31 December 2015: 11,388 thousand euros), which account for around a half of short-term borrowings, and loans which will probably be refinanced at maturity.

At the reporting date, the Group's cash and cash equivalents totalled 9,786 thousand euros (31 December 2015: 6,332 thousand euros).

### Interest rate risk

Our interest-bearing liabilities to banks have both fixed and floating interest rates. Finance lease liabilities have mainly floating interest rates. The base rate for most floating-rate contracts is EURIBOR. Compared with 2015, interest-bearing borrowings declined by 1,414 thousand euros. Loan and factoring liabilities decreased (by 2,472 thousand euros) while finance lease liabilities increased (by 1,058 thousand euros). The growth in finance lease liabilities is mainly attributable to the acquisition of a new asphalt concrete plant. At 31 December 2016, interest-bearing borrowings totalled 19,399 thousand euros (31 December 2015: 20,813 thousand euros). Interest expense for 2016 amounted to 681 thousand euros (2015: 770 thousand euros).

The main source of interest rate risk is a possible rise in the variable component of floating interest rates (EURIBOR, EONIA or the creditor's own base rate). In the light of the Group's relatively heavy loan burden this would cause a significant rise in interest expense, which would have an adverse impact on profit. We mitigate the risk by pursuing a policy of entering, where possible, into fixed-rate contracts when the market interest rates are low. As regards loan products offered by banks, observance of the policy has proved difficult and most new contracts have a floating interest rate. We have entered into a derivative contract to hedge the risks resulting from changes in the interest rates of the finance lease contract underlying the acquisition of the new asphalt concrete plant.

### 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 2016, the hryvnia weakened against the euro by around 8%. For our Ukrainian subsidiaries, this meant additional foreign exchange losses on the translation of their euro-denominated loans into the local currency. Relevant exchange losses totalled 195 thousand euros (2015: 574 thousand euros).



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Exchange gains and losses on financial instruments are recognised in *Finance income* and *Finance costs* respectively. Translation of receivables and liabilities from operating activities did not give rise to any exchange gains or losses.

The reciprocal receivables and liabilities of our 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 Ukrainian associates in euros give rise to exchange losses that ought to be recognised in the Group's accounts.

Due to movements in the Swedish krona/euro exchange rate in 2016, translation of operating receivables and payables resulted in an exchange gain of 18 thousand euros (2015: nil euros). The exchange gain has been recognised in *Other operating income*.

We do not use derivatives to hedge currency risk.



## Outlooks of the Group's geographical markets

### Estonia

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

- In 2017, public investments should grow slightly but 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 portion that will influence the construction market will not increase. Instead, compared with the previous period, there will be a rise in allocations to intangible areas.

Investments made by the largest public sector customers (e.g., state-owned real estate company Riigi Kinnisvara AS and the National Road Administration) which reach signature of a construction contract in 2017 will not increase substantially. The Ministry of Defence has been a positive exception for builders by carrying out procurements which have made a significant contribution to market revival. Hence, the Estonian construction market (particularly infrastructure construction segments) will remain in relative stagnation. The situation is softened by the positive level of private investment 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 general contractors (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. News about the difficulties of some construction companies, published at the end of 2016, show that the problems of weaker market players are escalating. According to our assessment, one reason why market consolidation has decelerated in recent years is customers' (particularly public sector customers') increasing desire to loosen 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, intensifying in line with market developments. The rise in the average number of bidders for a contract reflects this. However, the gap between the lowest bids made by winners and the average ones is narrowing, which shows that the quality of procurement documents is gradually improving and bidders' prices are evening up. 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 a difficult environment by dishonest means, e.g., by supplying goods with concealed defects or considerably lower quality than the one recorded in the product certificate, has been increasing quite rapidly. If the trend continues, both construction service providers and end-customers will have to apply strict and substantive quality control measures to make sure that the outcome meets their expectations. Unfair competition is putting visible pressure on prices and the quality of the construction service. Unfortunately, the problem is also underpinned by the customers' (including state institutions' and state-owned companies') increasing tendency to lower the bidders' qualification requirements and prioritise quality more on paper than in practice.

- In new housing development, the success of a project depends on the developer's ability to control the input prices included in the business plan and, thus, set sales prices that are affordable for prospective buyers. Although new apartments are relatively expensive compared to the standard of living and the banks' lending terms are strict, in 2016 the housing market grew rapidly. In the second half of the year, the increase in apartment prices decelerated and hopefully the market is going to stabilise. Similarly to previous periods, successful projects include those which are in an attractive location and fill a specific niche. In Tallinn and Tartu, the picture continues to be 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 participation 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 terms of funding, deadlines and quality.
- The input prices of the construction service have been relatively stable. However, in the second half of 2016, particularly in housing development, there emerged increasing pressure for a price increase. So far general contractors have been able to soften this by making margin concessions but their capacity for doing this is



decreasing. The construction market includes an increasing number of areas where changes in the environment may trigger a sharp price increase (e.g. materials producers' rapid and successful entry into foreign markets).

The rise in housing construction has lengthened the supply periods of various essential materials and services considerably, making it impossible to carry out all processes in the former optimistic timeframes. As a result, activities require more extensive planning or may need to be postponed.

- Persisting shortage of skilled labour (including project and site managers) may start restricting companies' performance capacities, which may affect different aspects of the construction process including quality. Labour migration to the Nordic countries will remain steady and the number of job seekers who return to the Estonian construction market is not likely to increase considerably. All of the above will sustain pressure for a wage increase, particularly in the category of the younger and less experienced workforce whose mobility and willingness to change jobs is naturally higher.

## Ukraine

In Ukraine, we provide general contracting and project management services to private sector customers in the segment of building construction. Political and economic instability continues to restrict the adoption of business decisions but construction activity in Kiev and the surrounding area has not halted. In 2017, we will continue our operations in Ukraine primarily in the Kiev region. Based on our order book as at the end of 2016, we expect that in 2017 our operating volumes will remain at a level comparable to 2016. Despite the military 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 which have been put on hold or signing a construction contract with a prospective new owner.

## Finland

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

## 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 2015 we signed the first contract on the construction of a five-floor apartment building in Stockholm (with a cost of around 8.4 million euros) and in 2016 another, smaller contract. In January 2017, we signed the third contract of 6.3 million euros. We will sustain efforts aimed at increasing our operations in Sweden and are currently moderately optimistic about the developments.

## Latvia and Lithuania

It is not likely that we will enter the Latvian or the Lithuanian construction market in the next few years.

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.

We have suspended the operations of our Lithuanian subsidiary, Nordecon Statyba UAB, for the time being and are monitoring developments in the Lithuanian construction market. Temporary suspension of operations does not cause any major costs for us and does not change our interest to do business in the Lithuanian construction market on a project basis through a subsidiary operating in the local market.







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## Management's confirmation and signatures

The board confirms that the Directors' report presents fairly all significant events that occurred during the reporting period as well as their impact on the condensed consolidated interim financial statements, contains a description of the main risks and uncertainties, and provides an overview of significant transactions with related parties.

Jaano Vink	Chairman of the Board		9 February 2017
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Avo Ambur	Member of the Board		9 February 2017
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Erkki Suurorg	Member of the Board		9 February 2017
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## Condensed consolidated interim financial statements

### Condensed consolidated interim statement of financial position

EUR'000	Note	31 December 2016	31 December 2015
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents		9,786	6,332
Trade and other receivables	2	21,055	17,503
Prepayments		1,644	1,599
Inventories	3	22,992	23,603
<b>Total current assets</b>		<b>55,477</b>	<b>49,037</b>
<b>Non-current assets</b>			
Investments in equity-accounted investees		1,640	1,179
Other investments		26	26
Trade and other receivables	2	10,816	10,516
Investment property		4,929	4,929
Property plant and equipment	4	11,111	9,623
Intangible assets	4	14,623	14,609
<b>Total non-current assets</b>		<b>43,145</b>	<b>40,882</b>
<b>TOTAL ASSETS</b>		<b>98,622</b>	<b>89,919</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Borrowings	5, 6	6,297	15,715
Trade payables		28,905	22,538
Other payables		6,295	5,475
Deferred income		4,128	3,233
Provisions		753	825
<b>Total current liabilities</b>		<b>46,378</b>	<b>47,786</b>
<b>Non-current liabilities</b>			
Borrowings	5, 6	13,102	5,098
Trade payables		98	104
Other payables		117	96
Provisions		881	768
<b>Total non-current liabilities</b>		<b>14,198</b>	<b>6,066</b>
<b>TOTAL LIABILITIES</b>		<b>60,576</b>	<b>53,852</b>
<b>EQUITY</b>			
Share capital		19,720	20,692
Own (treasury) shares		-1,550	-1,582
Share premium		564	547
Statutory capital reserve		2,554	2,554
Translation reserve		1,549	1,358
Retained earnings		13,091	10,970
<b>Total equity attributable to owners of the parent</b>		<b>35,928</b>	<b>34,539</b>
<b>Non-controlling interests</b>		<b>2,118</b>	<b>1,528</b>
<b>TOTAL EQUITY</b>		<b>38,046</b>	<b>36,067</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>98,622</b>	<b>89,919</b>



## Condensed consolidated interim statement of comprehensive income

EUR'000	Note	Q4 2016	Q4 2015	2016	2015
Revenue	8, 9	49,759	31,962	183,329	145,515
Cost of sales	10	-47,371	-29,232	-172,350	-136,484
<b>Gross profit</b>		<b>2,388</b>	<b>2,730</b>	<b>10,979</b>	<b>9,031</b>
Marketing and distribution expenses		-134	-138	-413	-412
Administrative expenses	11	-1,477	-1,608	-6,106	-5,026
Other operating income	12	214	175	362	464
Other operating expenses	12	-75	-41	-614	-124
<b>Operating profit</b>		<b>916</b>	<b>1,118</b>	<b>4,208</b>	<b>3,933</b>
Finance income	13	127	164	463	655
Finance costs	13	-303	-3,418	-1,088	-4,383
<b>Net finance costs</b>		<b>-176</b>	<b>-3,254</b>	<b>-625</b>	<b>-3,728</b>
Share of loss/profit of equity-accounted investees		-108	-8	609	226
<b>Profit/loss before income tax</b>		<b>632</b>	<b>-2,144</b>	<b>4,192</b>	<b>431</b>
Income tax expense		-14	0	-259	-257
<b>Profit/loss for the period</b>		<b>618</b>	<b>-2,144</b>	<b>3,933</b>	<b>174</b>
<b>Other comprehensive income</b>					
<b>Items that may be reclassified subsequently to profit or loss</b>					
Exchange differences on translating foreign operations		-51	197	191	587
<b>Total other comprehensive expense/income</b>		<b>-51</b>	<b>197</b>	<b>191</b>	<b>587</b>
<b>TOTAL COMPREHENSIVE INCOME/EXPENSE</b>		<b>567</b>	<b>-1,947</b>	<b>4,124</b>	<b>761</b>
<b>Profit/loss attributable to:</b>					
- Owners of the parent		607	-2,315	3,044	179
- Non-controlling interests		11	171	889	-5
<b>Profit/loss for the period</b>		<b>618</b>	<b>-2,144</b>	<b>3,933</b>	<b>174</b>
<b>Total comprehensive income/expense attributable to:</b>					
- Owners of the parent		556	-2,118	3,235	766
- Non-controlling interests		11	171	889	-5
<b>Total comprehensive income/expense for the period</b>		<b>567</b>	<b>-1,947</b>	<b>4,124</b>	<b>761</b>
<b>Earnings per share attributable to owners of the parent:</b>					
Basic earnings per share (EUR)	7	0.02	-0.08	0.10	0.01
Diluted earnings per share (EUR)	7	0.02	-0.08	0.10	0.01



## Condensed consolidated interim statement of cash flows

EUR'000	Note	2016	2015
<b>Cash flows from operating activities</b>			
Cash receipts from customers <sup>1</sup>		214,871	179,119
Cash paid to suppliers <sup>2</sup>		-179,312	-151,004
VAT paid		-7,217	-5,407
Cash paid to and for employees		-20,208	-19,921
Income tax paid		-197	-103
<b>Net cash from operating activities</b>		<b>7,937</b>	<b>2,684</b>
<b>Cash flows from investing activities</b>			
Paid on acquisition of property, plant and equipment		-148	-480
Paid on acquisition of intangible assets		-25	-21
Proceeds from sale of property, plant and equipment	4	160	337
Acquisition of a subsidiary		-15	-8
Cash acquired on acquisition of a subsidiary		0	9
Acquisition of an investment in an associate		0	-355
Disposal of a subsidiary		6	0
Loans provided		-81	-291
Repayment of loans provided		55	124
Dividends received		153	108
Interest received		2	366
<b>Net cash from/used in investing activities</b>		<b>107</b>	<b>-220</b>
<b>Cash flows from financing activities</b>			
Proceeds from loans received		2,847	2,099
Repayment of loans received		-2,262	-3,449
Finance lease principal paid	6	-2,478	-1,726
Interest paid		-695	-767
Dividends paid		-1,068	-1,091
Reduction of share capital		-923	0
<b>Net cash used in financing activities</b>		<b>-4,579</b>	<b>-4,934</b>
<b>Net cash flow</b>		<b>3,465</b>	<b>-2,470</b>
<b>Cash and cash equivalents at beginning of year</b>		<b>6,332</b>	<b>8,802</b>
Effect of movements in foreign exchange rates		-11	0
Increase/decrease in cash and cash equivalents		3,465	-2,470
<b>Cash and cash equivalents at end of year</b>		<b>9,786</b>	<b>6,332</b>

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

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



## Condensed consolidated interim statement of changes in equity

EUR'000	Equity attributable to owners of the parent							Non-controlling interests	Total
	Share capital	Treasury shares	Capital reserve	Share premium	Translation reserve	Retained earnings	Total		
<b>Balance at 31 December 2014</b>	<b>20,692</b>	<b>-1,582</b>	<b>2,554</b>	<b>547</b>	<b>771</b>	<b>11,714</b>	<b>34,696</b>	<b>1,671</b>	<b>36,367</b>
Profit/loss for the period	0	0	0	0	0	179	179	-5	174
Other comprehensive income	0	0	0	0	587	0	587	0	587
<b>Transactions with owners</b>									
Dividend distribution	0	0	0	0	0	-923	-923	-138	-1,061
<b>Total transactions with owners</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>-923</b>	<b>-923</b>	<b>-138</b>	<b>-1,061</b>
<b>Balance at 31 December 2015</b>	<b>20,692</b>	<b>-1,582</b>	<b>2,554</b>	<b>547</b>	<b>1,358</b>	<b>10,970</b>	<b>34,539</b>	<b>1,528</b>	<b>36,067</b>
<b>Balance at 31 December 2015</b>	<b>20,692</b>	<b>-1,582</b>	<b>2,554</b>	<b>547</b>	<b>1,358</b>	<b>10,970</b>	<b>34,539</b>	<b>1,528</b>	<b>36,067</b>
Profit for the period	0	0	0	0	0	3,044	3,044	889	3,933
Other comprehensive income	0	0	0	0	191	0	191	0	191
Changes in non-controlling interests	0	0	0	0	0	0	0	-154	-154
<b>Transactions with owners</b>									
Dividend distribution	0	0	0	0	0	-923	-923	-145	-1,068
Reduction of share capital	-972	32	0	17	0	0	-923	0	-923
<b>Total transactions with owners</b>	<b>-972</b>	<b>32</b>	<b>0</b>	<b>17</b>	<b>0</b>	<b>-923</b>	<b>-1,846</b>	<b>-145</b>	<b>-1,991</b>
<b>Balance at 31 December 2016</b>	<b>19,720</b>	<b>-1,550</b>	<b>2,554</b>	<b>564</b>	<b>1,549</b>	<b>13,091</b>	<b>35,928</b>	<b>2,118</b>	<b>38,046</b>



## Notes to the condensed consolidated interim financial statements

### NOTE 1. Significant accounting policies

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

The condensed consolidated interim financial statements as at and for the period ended 31 December 2016 have been prepared in accordance with International Financial Reporting Standard IAS 34 Interim Financial Reporting as adopted by the European Union. The condensed interim financial statements do not contain all the information presented in the annual financial statements and should be read in conjunction with the Group's latest published annual financial statements as at and for the year ended 31 December 2015.

The Group has not changed its significant accounting policies compared with the consolidated financial statements as at and for the year ended 31 December 2015.

#### **Derivative financial instruments**

The Group uses derivative financial instruments including swap contracts (swap transactions) to manage the risks arising from changes in interest rates. At initial recognition, such derivative financial instruments are measured at their fair value at the date of signature of the contract. After initial recognition, such instruments are re-measured to reflect changes in their fair value. Changes in fair value are recognised in profit or loss. When the fair value of the derivative is positive, the instrument is recognised as an asset. When the fair value of the derivative is negative, the instrument is recognised as a liability.

According to management's assessment, the condensed consolidated interim financial statements of Nordecon AS for the fourth quarter and twelve months of 2016 give a true and fair view of the Group's financial performance and the parent and all its subsidiaries that are included in the financial statements are going concerns. The condensed consolidated interim financial statements have not been audited or otherwise checked by auditors and contain only the consolidated financial statements of the Group.

### NOTE 2. Trade and other receivables

EUR'000	Note	31 December 2016	31 December 2015
<b>Current items</b>			
Trade receivables		12,905	11,519
Retentions receivable		491	97
Receivables from related parties		19	211
Loans to related parties	14	275	305
Miscellaneous receivables		276	1,276
<b>Total receivables and loans provided</b>		<b>13,966</b>	<b>13,408</b>
Due from customers for contract work		7,089	4,095
<b>Total current trade and other receivables</b>		<b>21,055</b>	<b>17,503</b>
EUR'000	Note	31 December 2016	31 December 2015
<b>Non-current items</b>			
Loans to related parties	14	10,351	9,878
Other non-current receivables		465	638
<b>Total non-current trade and other receivables</b>		<b>10,816</b>	<b>10,516</b>



## NOTE 3. Inventories

EUR'000	31 December 2016	31 December 2015
Raw materials and consumables	4,074	4,603
Work in progress	5,455	4,138
Goods for resale and properties held for development	12,276	12,762
Finished goods	1,187	2,100
<b>Total inventories</b>	<b>22,992</b>	<b>23,603</b>

## NOTE 4. Property, plant and equipment and intangible assets

### Property, plant and equipment

In 2016, the Group acquired new property, plant and equipment of 3,482 thousand euros (2015: 2,289 thousand euros). The items consisted of equipment and construction machinery required for the Group's operating activities. A substantial portion of the additions was made up of a new asphalt concrete plant.

Proceeds from sale of property, plant and equipment amounted to 160 thousand euros (2015: 337 thousand euros) (see the statement of cash flows) and sales gain on the transactions amounted to 143 thousand euros (2015: 327 thousand euros) (note 12).

### Intangible assets

In 2016, the Group did not conduct any significant transactions with intangible assets.

## NOTE 5. Borrowings

### Short-term borrowings

EUR'000	Note	31 December 2016	31 December 2015
Short-term portion of long-term loans		2,485	4,497
Short-term portion of finance lease liabilities	6	2,070	1,519
Short-term bank loans		1,742	7,556
Factoring liabilities		0	2,143
<b>Total short-term borrowings</b>		<b>6,297</b>	<b>15,715</b>

### Long-term borrowings

EUR'000	Note	31 December 2016	31 December 2015
Long-term portion of long-term bank loans		9,457	1,960
Long-term portion of finance lease liabilities	6	3,645	3,138
<b>Total long-term borrowings</b>		<b>13,102</b>	<b>5,098</b>

## NOTE 6. Finance and operating leases

EUR'000	31 December 2016	31 December 2015
<b>Finance lease liabilities at end of reporting period</b>	<b>5,715</b>	<b>4,657</b>
Of which payable not later than 1 year	2,070	1,519
Of which payable later than 1 year and not later than 5 years	3,645	3,138
Base currency EUR	5,662	4,657
Base currency UAH	53	0
Interest rates of contracts denominated in EUR <sup>1</sup>	2.0%-5.2%	2.0%-5.2%
Interest rates of contracts denominated in UAH	19%	-
Frequency of payments	Monthly	Monthly

<sup>1</sup> Includes leases with floating interest rates



### Finance lease payments

EUR'000	2016	2015
Principal payments made during the period	2,510	1,758
Interest payments made during the period	170	144

### Operating lease payments

EUR'000	2016	2015
Payments made for cars	833	795
Payments made for construction equipment	2,830	1,772
Payments made for premises	754	646
Payments made for software	301	244
<b>Total operating lease payments</b>	<b>4,718</b>	<b>3,457</b>

## NOTE 7. 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.

EUR'000	2016	2015
Profit for the period attributable to owners of the parent	3,044	179
Weighted average number of shares (in thousands)	30,757	30,757
Basic earnings per share (EUR)	0.10	0.01
Diluted earnings per share (EUR)	0.10	0.01

At 31 December 2016, Nordecon AS had no dilutive share options. Therefore, diluted earnings per share equal basic earnings per share.

## NOTE 8. Segment reporting – operating segments

The Group's chief operating decision maker is the board of the parent company Nordecon AS. The board 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.

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





## 12 months

EUR'000 12M 2016	Buildings EU	Buildings UKR	Infrastructure EU	Other segments	Total
Total revenue	130,630	4,318	42,075	6,857	183,880
Inter-segment revenue	-393	0	-628	-2,487	-3,508
<b>Revenue from external customers</b>	<b>130,237</b>	<b>4,318</b>	<b>41,447</b>	<b>4,370</b>	<b>180,372</b>
<b>Gross profit of the segment</b>	<b>10,037</b>	<b>116</b>	<b>1,507</b>	<b>275</b>	<b>11,935</b>

EUR'000 12M 2015	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
<b>Revenue from external customers</b>	<b>89,860</b>	<b>4,481</b>	<b>47,628</b>	<b>2,629</b>	<b>144,598</b>
<b>Gross profit/loss of the segment</b>	<b>6,244</b>	<b>41</b>	<b>4,117</b>	<b>-233</b>	<b>10,169</b>

## Fourth quarter

EUR'000 Q4 2016	Buildings EU	Buildings UKR	Infrastructure EU	Other segments	Total
Total revenue	36,787	1,155	9,639	2,280	49,861
Inter-segment revenue	-35	0	-303	-721	-1,059
<b>Revenue from external customers</b>	<b>36,752</b>	<b>1,155</b>	<b>9,336</b>	<b>1,559</b>	<b>48,802</b>
<b>Gross profit of the segment</b>	<b>2,223</b>	<b>40</b>	<b>340</b>	<b>152</b>	<b>2,755</b>

EUR'000 Q4 2015	Buildings EU	Buildings UKR	Infrastructure EU	Other segments	Total
Total revenue	22,065	1,332	7,855	961	32,213
Inter-segment revenue	0	0	-16	-577	-593
<b>Revenue from external customers</b>	<b>22,065</b>	<b>1,332</b>	<b>7,839</b>	<b>384</b>	<b>31,620</b>
<b>Gross profit/loss of the segment</b>	<b>2,489</b>	<b>-6</b>	<b>545</b>	<b>-74</b>	<b>2,954</b>

## Reconciliation of segment revenue

EUR'000	12M 2016	Q4 2016	12M 2015	Q4 2015
Total revenue for reportable segments	177,023	47,581	142,068	31,252
Revenue for other segments	6,857	2,280	4,778	961
Elimination of inter-segment revenues	-3,508	-1,059	-2,248	-593
Other revenue	2,957	957	917	342
<b>Total revenue</b>	<b>183,329</b>	<b>49,759</b>	<b>145,515</b>	<b>31,962</b>



## Reconciliation of segment profit

EUR'000	12M 2016	Q4 2016	12M 2015	Q4 2015
Total profit for reportable segments	11,660	2,603	10,402	3,028
Total profit/loss for other segments	275	152	-233	-74
Elimination of inter-segment profits and losses	-18	39	-19	-3
Other profits and losses	-938	-406	-1,119	-221
<b>Total gross profit</b>	<b>10,979</b>	<b>2,388</b>	<b>9,031</b>	<b>2,730</b>
Unallocated expenses:				
Marketing and distribution expenses	-413	-134	-412	-138
Administrative expenses	-6,106	-1,477	-5,026	-1,608
Other operating income and expenses	-252	139	340	134
<b>Operating profit</b>	<b>4,208</b>	<b>916</b>	<b>3,933</b>	<b>1,118</b>
Finance income	463	127	655	164
Finance costs	-1,088	-303	-4,383	-3,418
Share of profit/loss of equity-accounted investees	609	-108	226	-8
<b>Profit/loss before tax</b>	<b>4,192</b>	<b>632</b>	<b>431</b>	<b>-2,144</b>

## NOTE 9. Segment reporting – geographical information

EUR'000	12M 2016	Q4 2016	12M 2015	Q4 2015
Estonia	169,291	45,594	139,495	30,209
Ukraine	4,318	1,155	4,481	1,332
Finland	2,593	742	1,539	421
Sweden	7,520	2,308	0	0
Inter-segment revenues	-393	-40	0	0
<b>Total revenue</b>	<b>183,329</b>	<b>49,759</b>	<b>145,515</b>	<b>31,962</b>

## NOTE 10. Cost of sales

EUR'000	2016	2015
Cost of materials, goods and services	153,569	119,083
Personnel expenses	16,702	15,317
Depreciation expense	1,907	1,810
Other expenses	172	274
<b>Total cost of sales</b>	<b>172,350</b>	<b>136,484</b>

## NOTE 11. Administrative expenses

EUR'000	2016	2015
Personnel expenses	3,699	2,931
Cost of materials, goods and services	2,211	1,935
Depreciation and amortisation expense	34	29
Other expenses	162	131
<b>Total administrative expenses</b>	<b>6,106</b>	<b>5,026</b>



## NOTE 12. Other operating income and expenses

EUR'000	2016	2015
<b>Other operating income</b>		
Gain on sale of property, plant and equipment	143	379
Other income	219	85
<b>Total other operating income</b>	<b>362</b>	<b>464</b>

EUR'000	12M 2016	12M 2015
<b>Other operating expenses</b>		
Loss on sale of property, plant and equipment	0	52
Loss from doubtful and uncollectible receivables	138	22
Other expenses	476	50
<b>Total other operating expenses</b>	<b>614</b>	<b>124</b>

## NOTE 13. Finance income and costs

EUR'000	2016	2015
<b>Finance income</b>		
Interest income on loans	454	655
Gain on disposal of an investment in a subsidiary	3	0
Other finance income	6	0
<b>Total finance income</b>	<b>463</b>	<b>655</b>

EUR'000	2016	2015
<b>Finance costs</b>		
Interest expense	681	770
Foreign exchange loss	195	574
Other finance costs	212	3 039
<b>Total finance costs</b>	<b>1,088</b>	<b>4,383</b>

## NOTE 14. Transactions with related parties

The Group considers parties to be related if one has control of the other or significant influence over the other's operating decisions (assumes holding 20% or more 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 Counterparty	2016		2015	
	Purchases	Sales	Purchases	Sales
AS Nordic Contractors	335	0	456	0
Companies of AS Nordic Contractors group	3	6	3	10
Companies related to owners of AS Nordic Contractors	732	0	713	0
Equity-accounted investees	4,216	42	5,549	112
Companies related to members of the council	130	0	81	0



<b>Total</b>	<b>5,416</b>	<b>48</b>	<b>6,802</b>	<b>122</b>
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<b>EUR'000</b> <b>Nature of transactions</b>	<b>2016</b>		<b>2015</b>	
	<b>Purchases</b>	<b>Sales</b>	<b>Purchases</b>	<b>Sales</b>
Construction services	4,216	0	5,614	0
Goods	732	0	713	0
Lease and other services	385	48	296	122
Other transactions	83	0	179	0
<b>Total</b>	<b>5,416</b>	<b>48</b>	<b>6,802</b>	<b>122</b>

During the period, the Group recognised interest income on loans to associates of 297 thousand euros (2015: 487 thousand euros), on loans to a joint venture of 117 thousand euros (2015: 115 thousand euros) and on a loan to a company of AS Nordic Contractors group of 13 thousand euros (2015: 13 thousand euros).

#### Receivables from and liabilities to related parties at period-end

<b>EUR '000</b>	<b>31 December 2016</b>		<b>31 December 2015</b>	
	<b>Receivables</b>	<b>Liabilities</b>	<b>Receivables</b>	<b>Liabilities</b>
AS Nordic Contractors	0	11	0	9
Companies of AS Nordic Contractors group – receivables	1	0	0	0
Companies of AS Nordic Contractors group – loans and interest	275	0	263	0
Companies related to owners of AS Nordic Contractors	0	31	0	130
Associates – receivables and liabilities	18	894	211	1,821
Associates – loans and interest	8,637	0	8,344	0
Joint venture – loans and interest	1,714	0	1,576	0
<b>Total</b>	<b>10,645</b>	<b>936</b>	<b>10,394</b>	<b>1,960</b>

#### Compensation provided to the council and the board

The service fees of the members of the council of Nordecon AS for 2016 amounted to 138 thousand euros and associated social security charges totalled 45 thousand euros (2015: 139 thousand euros and 46 thousand euros respectively). The provision for the council members' performance bonuses, made based on the Group's performance indicators, amounted to 47 thousand euros and associated social security charges totalled 16 thousand euros (2015: 37 thousand euros and 12 thousand euros respectively).

The service fees of the members of the board of Nordecon AS amounted to 350 thousand euros and associated social security charges totalled 116 thousand euros (2015: 322 thousand euros and 106 thousand euros respectively). The provision for the board members' performance bonuses, made based on the Group's performance indicators, amounted to 243 thousand euros and associated social security charges totalled 80 thousand euros (2015: 188 thousand euros and 62 thousand euros respectively).

## NOTE 15. Litigation and claims

#### Final judgment on the Group's dispute with Kantauro OÜ

On 26 May 2015, Harju County Court rendered a judgment in the civil matter of Nordecon AS's action against Kantauro OÜ for recovery of debt. Based on an order placed by Kantauro OÜ, Nordecon AS built a shopping centre in Tallinn with a net area 15,000 square metres (Stroomi Keskus). The shopping centre was opened to customers on 4 December 2014 but, regrettably, the developer failed to pay the builder part of the amounts due under the contract. As Kantauro OÜ did not settle its debt despite repeated reminders, Nordecon AS went to court.

Taking into account that Kantauro OÜ did not respond to the action, the court made a judgment by default and satisfied Nordecon AS's claim in full. Kantauro OÜ was ordered to pay Nordecon AS the principal debt of 201 thousand euros and late payment interest accrued by the date the action was filed of 316 thousand euros as well as associated procedure costs. On 1 May 2015, Kantauro OÜ filed a petition against the judgment but on 26 June



2015 the county court issued a ruling by which the petition was denied. Kantauro OÜ paid Nordecon AS the principal debt and late payment interest as ordered by the court and on 13 July 2015 filed an appeal with the circuit court against the ruling by which its petition was denied.

On 31 August 2015, the circuit court annulled the ruling of Harju County Court of 26 June 2015 by which the petition was denied and proceedings were not reopened and referred the case back to the county court for new adjudication on the petition. On 7 September 2015, Harju County Court again denied the petition. On 21 September 2015, Kantauro OÜ filed an appeal with the circuit court against the ruling by which its petition was denied. On 21 October 2015, the circuit court annulled the ruling of Harju County Court of 7 September 2015 by which the petition was denied and proceedings were not reopened and again referred the case back to the county court for new adjudication on the petition. On 10 January 2016, the county court again denied the petition. On 11 February 2016, Kantauro OÜ filed an appeal against the ruling of the county court. On 26 February 2016, Nordecon AS submitted its statement on the appeal. On 25 April 2016, Tallinn Circuit Court denied Kantauro OÜ's appeal. On 12 May 2016, Kantauro OÜ filed an appeal with the Supreme Court which on 8 June 2016 did not accept the appeal.

#### **Final judgment on the Group's dispute with Ilmarine Engineering OÜ**

On 4 August 2016, the court dispute between Nordecon AS and Ilmarine Engineering OÜ in civil matter No. 2-14-55499 came to an end. The case focused on the question of whether Nordecon AS was obliged to pay AS Ilmarine an additional fee for the execution of Tallinn Seaplane Harbour construction works (Ilmarine Engineering OÜ acquired the claim from AS Ilmarine). The parties had agreed that the additional fee would be paid only if AS Ilmarine executed the works by a specified date. AS Ilmarine breached that obligation as the court established in civil matter No. 2-12-36887 requiring AS Ilmarine to pay a contractual penalty of 28,020 euros. Despite this, the court found in civil matter No. 2-14-55499 that AS Ilmarine was entitled to an additional fee although the contract terms for payment of the additional fee had not been met. Surprisingly the Supreme Court did not accept the cassation appeal filed by Nordecon AS and thus the judgements of Harju County Court of 3 July 2015 and Tallinn Circuit Court of 10 March 2016 which set aside the agreement on the additional fee entered into force. Nordecon AS was ordered to pay an additional fee of 175,132.80 euros along with late payment interest and the procedure costs of Ilmarine Engineering OÜ. Nordecon AS has complied with the court order.

#### **Judgment on dispute regarding the Aruvalla-Kose procurement contract**

On 17 November 2014, venture partners Nordecon AS and Ramboll Eesti AS filed a statement of claim against the state. i.e., Republic of Estonia, in connection with the contract for the procurement of the design and construction of the Aruvalla-Kose section of road E263. The customer, the National Road Administration, has accepted all construction works related to the Aruvalla-Kose road section and confirmed that all works were completed on time and the outcome meets the construction standards and regulations. The dispute relates to additional costs incurred because a method for measuring the aggregate filtration module (factor), which has a strong impact on road construction, was prohibited by the National Road Administration who unilaterally changed the contract performance terms, as well as the approvals it had previously granted, approximately a year after the conclusion of the contract. Nordecon AS believes that the National Road Administration as a representative of a professionally operating state must act properly and unequivocally and observe the principles of good faith. Estonia's economic environment and companies need assurance that the state acts properly, giving an example for the private sector, and observes the rules it has accepted and implemented on the conclusion of a contract throughout the performance of that contract. The contract for the construction of the Aruvalla-Kose road section was signed in spring 2011 and until August 2012 construction work was done using the filtration module measurement method (Sojuzdornii) specified in the work programme required by the contract which the National Road Administration had unconditionally accepted. However, in 2012 the customer, the National Road Administration, changed the filtration measurement methodology and also applied it to the contract which had been signed earlier, ignoring the work programme it had previously accepted. In their statement of claim, Nordecon AS and Ramboll Eesti AS request compensation for unforeseen costs incurred due to the change of the filtration measurement methodology of 3,495,604.70 euros plus late payment interest.

On 14 September 2016, Harju County Court rendered a judgement in which it found that Nordecon AS's claim was unfounded, dismissed the action and determined that the procedure costs are to be borne by Nordecon AS. On 13 October 2016, Nordecon AS filed an appeal with the circuit court. The circuit court changed the reasoning of the judgement rendered by Harju County Court substantially but dismissed the appeal by a ruling issued on 23 December 2016. The ruling has no impact on the Group's financial results. On 23 January 2017, Nordecon AS



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lodged a cassation appeal with the Supreme Court in which it challenged the ruling of Tallinn Circuit Court of 23 December 2016.

## NOTE 16. Events after the reporting period

### **Merger of group entities**

At a meeting held on 14 October 2016, the Group's council decided to approve the merger of Nordecon AS's wholly-held subsidiaries Järva Teed AS and Hiiu Teed OÜ and Nordecon AS's road maintenance and machinery division. The purpose of the merger is to bring the Group's road maintenance, heavy machinery, and mining segments under one management team and thereby eliminate various duplicate operations, streamline the management structure and clarify areas of responsibility. In addition to structural streamlining, the merger will allow to harmonise procedures and quality control systems, which will enhance operating efficiency and improve the Group's overall competitiveness. The merger of different support services will also result in cost savings. The merged entity will continue to operate in all the same segments, such as road maintenance and construction, land improvement, surface dressing, mining, manufacture of traffic control devices, and lease of heavy machinery. The merger and the new business name, AS Tariston, were entered in the Commercial Register on 6 January 2017.






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## Statements and signatures

### Statement of management's responsibility

The board of Nordecon AS acknowledges its responsibility for the preparation of the Group's condensed consolidated interim financial statements for the fourth quarter and twelve months of 2016 and confirms that:

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

Jaano Vink	Chairman of the Board		9 February 2017
Avo Ambur	Member of the Board		9 February 2017
Erkki Suurorg	Member of the Board		9 February 2017