NORDECON

Annual report 2014

Business name	Nordecon AS
Registry number	10099962
Address	Pärnu mnt 158/1, 11317 Tallinn
Domicile	Republic of Estonia
Telephone	+372 615 4400
E-mail	nordecon@nordecon.com
Corporate website	www.nordecon.com
Core business lines	Construction of residential and non-residential buildings (EMTAK 4120) Construction of roads and motorways (EMTAK 4211) Road maintenance (EMTAK 4211) Construction of utility projects for fluids (EMTAK 4221) Construction of water projects (EMTAK 4291) Construction of other civil engineering projects (EMTAK 4299)
Financial year	1 January 2014 – 31 December 2014
Council	Toomas Luman (chairman of the council), Alar Kroodo, Andri Hõbemägi, Tiina Mõis, Meelis Milder, Ain Tromp
Board	Jaano Vink (chairman of the board), Avo Ambur, Erkki Suurorg
Auditor	KPMG Baltics OÜ

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About the Group

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

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

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

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

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

The shares in Nordecon AS 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.

Message from the chairman of the council

The year 2014 brought several unforeseen developments. None of us expected such an escalation in geopolitical tensions in our region by which I mean our own country and, more specifically, Ukraine, which has been a familiar market for the Group since 1997. The need for supporting the European economic environment into which Estonia has been integrated with a vigorous monetary policy also became more urgent than anticipated. In the light of this, developments in the Estonian construction sector were all the more surprising – even though investments influenced by the beginning of the new EU budget period decreased as expected, the rise in private sector investment activity was considerably stronger than anticipated. Thus, there was a basis for delivering solid performance.

However, to use a well-known sports analogy, the game is not over until the final whistle. After the first three quarters, when the Group took maximum advantage of the economic situation, its fourth-quarter results were not quite satisfactory. Whatever the external situation, the key to our basic success lies in what we do, i.e., our own work methods. Consistent focus on operational productivity and efficiency must remain Nordecon's primary guiding principle and the council will ensure that this remains a priority.

I am pleased to state that Nordecon is again among companies that pay dividends. We have always believed that Nordecon must be a company that distributes dividends when economic conditions permit. This was again the case in 2014 and, in line with our strategy, we make dividend distribution decisions on an annual basis.

In such a dynamic sector as construction there is always room for improvement and streamlining. In this respect Nordecon is no exception either in the Estonian market or more generally. There is no doubt that throughout its history Nordecon has been a highly competitive company. We have analysed possible developments in our home market as well as our five-year track record in the Finnish market and have decided to start looking at the Swedish market, which according to many analysts is one of the most dynamic and attractive real estate markets not only in the Nordic countries but also in Europe. Nordecon wishes to remain a growth company.

Toomas Luman

Chairman of the Council

Chief executive's statement

In 2014, Nordecon celebrated an anniversary: 25 years since the beginning of operations. In February 1989, the first employee was hired for the newly-established Estonian-Finnish joint venture and work began on the construction of a wastewater treatment facility for Rakvere meat processing plant. Today, the former Estonian venture partner is one of the leading companies in the Estonian construction market and the former Finnish venture partner is one of the largest players in the Finnish construction and real estate market. There is every reason to be proud on both sides of the Gulf of Finland.

For the construction market as a whole the year 2014 was quite subdued. On the one hand, the preceding two or three years had given time to regroup after a severe recession, but on the other hand, the decline in EU support, resulting from the change of budget periods, became a harsh reality even though it was known for a long time that this would happen. Altogether, the sector delivered average performance. There were no major negative surprises and, regrettably, no exceptionally positive developments.

The same can be said about Nordecon's results. The Group's revenue decreased but less than we had expected. Profitability declined but mostly due to factors beyond our control – the strained situation in Ukraine had a strongly adverse impact on our net profit. Most of our 161-million euro revenue and 2.3-million euro profit was generated by our Estonian operations. As anticipated at the beginning of the year, our revenue structure changed radically. The contribution of infrastructure construction, which had dominated our portfolio for six years, dropped to 35% and the contribution of building construction rose to 65%. On the positive side, it ought to be noted that our Estonian subsidiaries performed better than expected, showing their ability to respond well to market changes and find opportunities for earning a profit also in tougher circumstances. Our order book grew moderately, rising to 84 million euros by the year-end.

Similarly to previous years, we delivered within the agreed time and quality several significant and noteworthy buildings such as the Paide city wastewater treatment plant, apartment buildings in Uus-Tammelinn, the Translational Medicine Centre of the University of Tartu, phase V of St Paul's Church in Tartu, FLIR's production building, a multi-storey car park at Valukoja 4C in Tallinn, a commercial and residential building at Õhtu põik in Pärnu, Väätsa Agro's farm complex which is the largest of its kind in Estonia, and phase III of the Astri shopping centre in Narva. There is every reason to be equally proud of our infrastructure work – construction of the Sõpruse bridge boat harbour in Tartu, reconstruction of the Aovere-Luunja road (km 0-11.35) and design and construction of the Juuliku-Tabasalu connecting road were projects that will benefit many users for years to come.

In 2015, Nordecon's hard-working and dedicated staff are involved in many projects across Estonia as well as abroad. I am confident that their work will provide satisfaction and value to numerous customers and business partners.

Jaano Vink

Chairman of the Board

Management’s discussion and analysis

Strategic agenda for 2014-2017

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

Business activities

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

Group structure and organisation

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

Financial targets

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

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

Estonia

During the year, the Group was involved in building and infrastructure construction, being active in practically all market sub-segments. A significant proportion of the core business was conducted by the parent, Nordecon AS, which continued to act as 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 area in Harju county and in Järva and Hiiu counties (delivered by Nordecon AS, Järva Teed AS and Hiiu Teed OÜ respectively).

We did not enter any new segments in Estonia.

Foreign markets

Latvia

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

Lithuania

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

Ukraine

At the beginning of 2014, the political and economic situation in Ukraine became strained due to differences between Ukraine and Russia. Economic uncertainty caused the Ukrainian hryvnia to plummet against the euro. The Group's exchange losses from the weakening of the hryvnia were around 1.3 million euros for the year. In recent years, our activity under existing Ukrainian contracts has been subdued and highly conservative, with work done in the capital Kiev only. In 2014, the military conflict raging 700 km away in eastern Ukraine did not have a direct impact on our activities, mostly because the number of local employees had already been reduced to a minimum during earlier periods of the recession and we have only accepted contracts where we have been certain that the risks involved are reasonable in the circumstances. Despite the complicated situation in the eastern part of the country, we were able to increase our operations in Ukraine compared with 2013.

Real estate development projects that require extensive investment (we have currently stakes in two development projects that have been put on hold) remain suspended to minimise the risks until the situation in Ukraine stabilises. To secure one of the investments, the Group and its co-owners privatised the land held by the associate V.I. Center TOV and encumbered it with mortgages to secure the loans provided by the Group.

Finland

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

Performance by geographical market

In 2014, around 6% of the Group's revenue was generated outside Estonia compared with 5% in 2013.

	2014	2013	2012	2011	2010
Estonia	94%	95%	98%	97%	94%
Ukraine	4%	0%	0%	0%	2%
Belarus	0%	0%	0%	1%	3%
Finland	2%	5%	2%	2%	1%

Finnish revenue comprises revenue from concrete works in the building construction segment. The contribution of the Finnish market has decreased slightly while the contribution of the Ukrainian market where we started work under a new building construction contract in Kiev has increased. In Ukraine, the work is done in close cooperation with the customer, based on open invoices in order to minimise the risks that are beyond the control of the parties.

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. Our strategy foresees increasing foreign operations in the longer term; for further information, see the chapter *Strategic agenda for 2014-2017*. Our vision of the Group's operations in foreign markets is described in the chapter *Outlooks of the Group's geographical markets*.

Performance by business line

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

In 2014, Nordecon's revenues totalled 161,289 thousand euros, 7% down from the 173,651 thousand euros generated in 2013. The decline is mainly attributable to the Infrastructure segment that saw shrinkage across all sub-segments, mostly because the projects supported by the EU structural funds came to an end and contract volumes dropped sharply. The revenue of the Buildings segment grew as expected through a rise in both the number and average cost of contracts secured from the private sector. We highlighted the change already at the end of the previous financial year.

We strive to maintain the revenues of our operating segments (Buildings and Infrastructure) in balance as this helps disperse risks and provides better opportunities for continuing construction operations also in stressed circumstances where one segment may experience major shrinkage. The period's changes in our contract structure reflect the soundness of the chosen strategy.

Estonian construction market in 2014

According to preliminary data released by Statistics Estonia, in 2014 Estonian construction companies' total output (measured in current prices) amounted to 2,100 million euros, a 3% decrease compared with 2013 when the figure was 2,221 million. Work done in Estonia accounted for 92% of the total (2013: 91%). Buildings were built for 1,300 million euros and infrastructure assets for 809 million euros (2013: 1,332 million euros and 889 million euros respectively). The factor, which impacted the construction market the most, was the decline in infrastructure construction, which contracted by around one tenth. However, the fact that building construction (measured in absolute terms) essentially stagnated and did not grow also played a role. As a result, competition in the market intensified considerably.

In building construction, growth was mainly underpinned by investments made by the private sector and continuing recovery of the real estate market. The number of new dwellings grew for the third consecutive year. In 2014, permits of use were granted to 2,756 new dwellings (2013: 2,079). Most of the new dwellings that were completed during the year were in apartment buildings and the largest numbers of new dwellings were completed in Tallinn and its vicinity and in Tartu. Construction permits were issued for 3,941 new dwellings, an increase of around one third on the previous year. The number of non-residential premises that received a permit of use was 785 and their total usable area was 529,000 square metres. The largest growth occurred in new warehouse, industrial and agricultural premises. Both the number and usable area of non-residential premises receiving a permit of use decreased year over year (2013: 887 and 607,000 respectively).

Construction output (volumes)*	2013	2012	2011	2010	2009	2008	2007
Construction output in Estonia, in EUR millions	2,221	2,046	1,660	1,275	1,515	2,397	2,758
Of which buildings	1,332	1,222	958	718	902	1,579	1,954
Of which infrastructure assets	889	824	702	557	613	818	804

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

Segment revenues

As anticipated, the shrinkage in infrastructure construction, which impacted the whole construction market, also found reflection in the Group's revenue structure. For the first time in recent years, the Buildings segment generated more revenue than the Infrastructure segment. The 2014 revenue figures were 105,145 thousand euros for Buildings and 51,585 thousand euros for Infrastructure. The year before, the corresponding figures were 71,694 thousand euros and 98,550 thousand euros (note 27). The change in revenue structure could be expected because at the beginning of 2014 77% of work in the Group's order book was attributable to the Buildings segment and 23% to the Infrastructure segment.

Revenue by segment*

Operating segments	2014	2013	2012	2011	2010
Buildings	65%	41%	42%	48%	48%
Infrastructure	35%	59%	58%	52%	52%

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

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

Sub-segment revenues

In the revenue structure of the Buildings segment, the contributions of public buildings and, to a lesser extent, commercial buildings have declined whereas the contributions of industrial and warehouse facilities and apartment buildings have increased. In 2014, the segment's largest revenue contributors were contracts for the construction of commercial buildings in Tallinn (the Stroomi shopping centre, an office building in Ülemiste City and the Eesti Loto building) and Narva (an extension to the Astri shopping centre). In Pärnu, the Group is reconstructing Estonia Spa. We expect private sector investment activity to remain robust and the contribution of the sub-segment to remain at a similar or higher level also in 2015.

The industrial and warehouse facilities sub-segment has seen a structural shift. In previous years, most of the sub-segment's revenue resulted from agricultural projects undertaken with the EU investment support. In 2014, the share of EU-supported projects decreased visibly and the main contributors were warehouse facilities and logistics centres. The sub-segment's largest projects were the Väätsa Agro dairy farm complex, the Smarten logistics centre and FLIR's production building. The work done for companies engaged in heavy industry increased as well. We do not expect the revenues of the sub-segment to increase substantially in 2015.

The competitive situation in the public buildings sub-segment is extremely challenging: it is hard to win a contract without taking risks but our current policy is to avoid high risks. The largest projects of the year were the construction of the Translational Medicine Centre of the University of Tartu, the academic building of the NCO School of the Estonian National Defence College, phase V of St Paul's Church in Tartu and the Võru State Secondary School. Construction of the state secondary school will continue in 2015. If competition remains fierce, the contribution of the sub-segment is likely to decline.

Our apartment building revenues resulted mostly from general contracting. Major revenue contributors were the apartment buildings at Pirita tee 26 and in Kentmanni street and phase I of the Tondi residential quarter in Tallinn. The contribution of our own development projects also continues to increase. At the year-end, we completed two new apartment buildings with a total of 35 apartments in the Tammelinn district of Tartu. Sale of the apartments has been highly successful: by the year-end, 17 apartments were sold (www.tammelinn.ee). We have started preparations for the construction of phase II of the development. Most of the apartments in the Tigutorn apartment building (our other development project in Tartu) have been sold: at the year-end, only 1 apartment was still for sale. In Tallinn, we continue to sell apartment ownerships in phase I and build phase II of our Magasini 29 development project (www.magasini.ee). At the year-end, 5 of the 13 terraced housing units were sold.

Revenue distribution within Buildings segment	2014	2013	2012	2011	2010
Commercial buildings*	42%	45%	26%	12%	19%
Industrial and warehouse facilities*	33%	29%	35%	40%	36%
Public buildings	7%	21%	36%	45%	35%
Apartment buildings	18%	5%	3%	3%	10%

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

In 2014, the main revenue source in the Infrastructure segment was road construction. The average size of the sub-segment's contracts has decreased considerably and volumes are not going to regain the level of 2013 because procurement of large-scale design and construction work has been replaced by smaller-scale reconstruction and repair projects. Still, the contribution of the sub-segment will remain the strongest, partly thanks to the performance of long-term road maintenance contracts in the Järva and Hiiu counties and the Keila maintenance area.

In specialist engineering, a major project was the construction of the Sõpruse bridge boat harbour in Tartu. There is currently no information about any major investments in projects requiring hydraulic engineering work, which the Group has performed successfully over the years. The revenues of the sub-segment may increase through other complex engineering work but relevant revenues are likely to be irregular and will therefore not have a significant impact on the portfolio as a whole.

The decline in EU support due to the change of budget periods has had a strong impact on our environmental engineering and utility network construction (other engineering) revenues, which have decreased more rapidly than the revenues of other sub-segments. It is unlikely that the contributions of these sub-segments will remain stable in 2015. Instead, it is likely that their volumes will continue to contract because in 2014 quite a large share of their revenue resulted from long-term contracts secured in the previous period. Most new contracts are small.

Revenue distribution within Infrastructure segment	2014	2013	2012	2011	2010
Road construction and maintenance	72%	54%	51%	47%	62%
Specialist engineering (including hydraulic engineering)	2%	8%	15%	10%	1%
Other engineering	19%	26%	27%	35%	28%
Environmental engineering	7%	12%	7%	8%	9%

A selection of projects completed in 2014

Major projects completed by Group entities in different sub-segments in 2014*

Project	Group entity	Customer	Operating segment
Construction of the Sõpruse bridge boat harbour in Tartu	Nordecon AS	Tartu City Government	Specialist engineering
Construction of the Paide city wastewater treatment plant	Nordecon AS	Paide Vesi AS	Environmental engineering
Construction of phase I of apartment buildings in Uus-Tammelinn	Nordecon AS	Nordecon AS, own development	Apartment buildings
Reconstruction of the Aovere-Luunja road (km 0-11.35)	Nordecon AS	Estonian Road Administration	Road construction
Design and construction of the Juuliku-Tabasalu connecting road	Nordecon AS	Estonian Road Administration	Road construction
Construction of FLIR's production building	Nordecon AS	FLIR Systems Estonia OÜ	Industrial and warehouse facilities
Construction of the Stroomi shopping centre	Nordecon AS	Kantauro OÜ	Commercial buildings
Construction of phase III of the Astri shopping centre in Narva	Nordecon AS	Astri-Narva AS	Commercial buildings
Construction and reconstruction work in phase V of St Paul's Church in Tartu	Nordecon AS	Foundation Tartu Pauluse Kirik	Public buildings
Design and construction of the Translational Medicine Centre of the University of Tartu	Nordecon AS	University of Tartu	Public buildings
Construction of a commercial and residential building at Õhtu põik 3 in Pärnu	AS Eston Ehitus	Kinnisvarastuudio OÜ	Apartment buildings
Construction of Milectria Est OÜ's production building in Audru	AS Eston Ehitus	Milectria Est OÜ	Industrial and warehouse facilities
Construction of a Konsum supermarket in Sauga	AS Eston Ehitus	Vändra Consumer Association	Commercial buildings
Construction of a multi-storey car park at Valukoja 4C	Nordecon Betoon OÜ	Technopolis Ülemiste AS	Commercial buildings
Construction of the Petroter 3 Oil Plant	Nordecon Betoon OÜ	Viru Keemia Grupp AS	Industrial and warehouse facilities
Construction of the Väätsa Agro farm complex	Nordecon Betoon OÜ	Väätsa Agro AS	Industrial and warehouse facilities

* Comprises projects that have been delivered in the stage of substantial completion and are fit for use by the customer. There may be some incomplete work.

Recognition awarded to the Group

Special Architecture and Builder Award

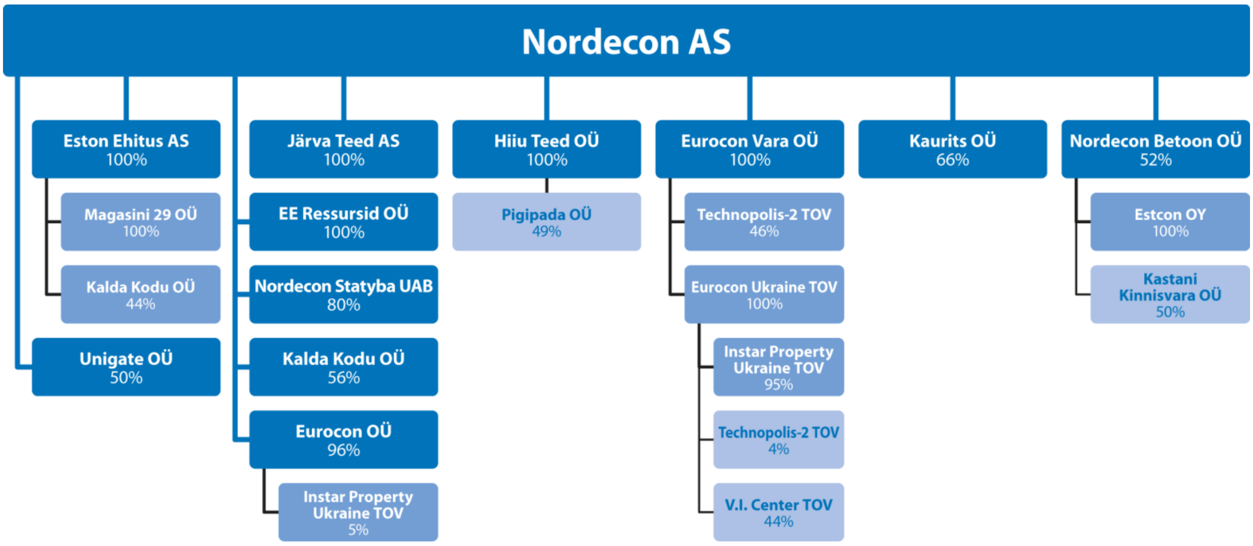
On the Concrete Day held in March 2015, the Estonian Concrete Association announced winners of the Concrete Structure of the Year 2014 competition. The multi-storey car park built by Nordecon Betoon OÜ at Valukoja 4C in Ülemiste City in Tallinn received the Special Architecture and Builder Award.

The Best Road Maintenance Company

The Estonian Road Administration awarded Järva Teed AS the title of The Best Road Maintenance Company 2014. The title reflects that both the customer and road users appreciate the company's work quality.

Group structure

The Group's structure at 31 December 2014, including interests in subsidiaries, associates and joint ventures*



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

Significant changes in the Group's structure

Sepavara OÜ

Substantive proceedings for the liquidation of the Group's Estonian associate Sepavara OÜ in which AS Eston Ehitus had a 50% stake were completed in April 2014. The entity ceased to conduct active business operations in 2013.

Eurocon OÜ

In line with a court ruling that took effect on 7 August 2014, Nordecon AS settled the principal claims of Aivar Noormets which amounted to 539 thousand euros and the interest accrued on them. After complying with the ruling, Nordecon AS acquired an additional 5.8% stake in Eurocon OÜ in August 2014. A further 8.2% stake in the entity was acquired in September and an 18% stake in October. At 31 December 2014, Nordecon AS's ownership interest in Eurocon OÜ was 96%.

Technopolis-2 TOV

To better manage its business risks, in August 2014 the Group's Ukrainian subsidiary Eurocon Ukraine TOV sold most of its 50% stake in Technopolis-2 TOV, an entity holding a real estate development project, to Eurocon Vara OÜ. The transaction did not change the Group's ownership interest in Technopolis-2 TOV, which remained 50% through Eurocon Vara OÜ's 46% and Eurocon Ukraine TOV's 4%.

Nordecon Statyba UAB

In December 2014, Nordecon AS acquired a 10% ownership interest from Arealis UAB, an entity of AS Nordic Contractors group, raising its stake in Nordecon Statyba UAB to 80%. The transaction, which was undertaken to further streamline the Group's structure, did not give rise to any significant costs.

Changes in the Group's structure after the reporting period

SweNCN OÜ

On 6 February 2015 (the date of signature of the entity's memorandum of association), Nordecon AS acquired a 60% stake in SweNCN OÜ (an entity under establishment). The remaining 40% stake was acquired by Luksusjaht AS, which has a 9.85% interest in Nordecon AS. The sole owner of Luksusjaht AS, Sven Lennart Alpstål, has a 0.09% interest in Nordecon AS.

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

Embach Ehitus OÜ

On 3 February 2015 (the date of signature of the entity's memorandum of association), Nordecon AS acquired a 46% stake in Embach Ehitus OÜ (an entity under establishment). According to plan, Embach Ehitus OÜ is going to operate as a contractor in the building construction segment. It will focus on offering services to private sector customers that are interested in carrying out construction and development projects in southern Estonia. At the date of establishment, the share capital of Embach Ehitus OÜ amounted to 2,500 euros. Nordecon AS made the investment to be able to respond flexibly to changes in the construction market and to move closer to prospective customers.

V.I. Center TOV

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

Financial review

Financial performance

Nordecon group ended 2014 with a gross profit of 9,813 thousand euros (2013: 11,309 thousand euros) and a gross margin of 6.1% (2013: 6.5%). Profitability grew in the Buildings segment and dropped slightly in the Infrastructure segment.

The Group's management was aware of the prospective fall in demand and the ensuing rise in competitive pressure in previous periods already (see also the chapters *Order book*, *Description of the main risks* and *Outlooks of the Group's geographical markets*) and adopted measures for maintaining profitability in a situation where volumes decrease. We are aware that potential rises in input prices pose a risk for long-term contracts and continue to prioritize a contract's expected profitability over revenue growth or retention.

The Group's administrative expenses for 2014 totalled 5,656 thousand euros, 14.9% up on the year before (2013: 4,922 thousand euros). The ratio of administrative expenses to revenue was 3.5% (2013: 2.8%). One of the main factors that contributed to growth in administrative expenses was the provision for performance-related pay, which is recognised based on the Group's financial indicators. Our cost-control measures continued to yield strong results – administrative expenses remained below the target ceiling, i.e., 4% of revenue.

Operating profit for 2014 amounted to 4,015 thousand euros (2013: 5,303 thousand euros) and EBITDA (including the effect of goodwill) was 5,585 thousand euros (2013: 7,639 thousand euros).

Adverse movements in the euro/hryvnia exchange rate gave rise to exchange losses that were significantly larger than those of previous periods. The Ukrainian hryvnia weakened by around 44%, which meant that Group entities whose functional currency is the hryvnia had to re-measure their euro-denominated liabilities. The Group's exchange losses that are reported within finance costs totalled 1,299 thousand euros (2013: 144 thousand euros). In accounting, the same exchange loss gave rise to a positive 1,069 thousand-euro change in the translation reserve reported in equity (2013: a change of 106 thousand euros) and the net effect of the exchange loss on the Group's net assets was 230 thousand euros (2013: 38 thousand euros).

The Group's net profit for the year was 2,298 thousand euros (2013: 4,639 thousand euros) of which profit attributable to owners of the parent, Nordecon AS, was 1,956 thousand euros (2013: 4,642 thousand euros).

Cash flows

Operating activities of 2014 resulted in a net cash inflow of 4,014 thousand euros (2013: a net inflow of 5,426 thousand euros). During the year, the Group signed several contracts with the private sector that do not require the customer to make prepayments. Absence of prepayments has become a growing trend also in the case of public sector construction contracts. Moreover, cash inflow is reduced by amounts retained from invoices issued during the construction period that are released only when construction activity ends. Retentions account for 5-10% of the value of a contract. In 2014, cash inflow was further lowered by work done on our own housing development projects and projects completed with higher than expected profit margins, which resulted in larger performance-related pay and accompanying tax charges. Operating cash flows continue to be influenced by a mismatch in settlement terms: the ones agreed with customers are long and in the case of public procurement mostly extend from 30 to 56 days while subcontractors generally have to be paid within 21 to 45 days. We counter the cyclicality by using factoring services and use overdraft facilities to finance our working capital needs.

Investing activities resulted in a net cash outflow of 1,013 thousand euros (2013: a net outflow of 814 thousand euros). The largest one-off outflows were a loan of 250 thousand euros to an entity of AS Nordic Contractors group (see note 38), a payment of 180 thousand euros made to acquire the remaining shares in the subsidiary AS Eston Ehitus from the non-controlling shareholders and payments of 557 thousand euros for increasing the Group's ownership interest in Eurocon OÜ (see note 7).

Financing activities resulted in a net cash outflow of 6,771 thousand euros (2013: a net outflow of 2,226 thousand euros). Loan repayments exceeded loan receipts by 3,379 thousand euros whereas in 2013 loan receipts exceeded repayments by 470 thousand euros. The changes are mainly attributable to changes in the Group's overdraft balances and repayments made under long-term investment loans. Finance lease and interest payments declined slightly. Dividends distributed in 2014 totalled 1,432 thousand euros (2013: 121 thousand euros).

At 31 December 2014, the Group's cash and cash equivalents totalled 8,802 thousand euros (31 December 2013: 12,575 thousand euros). Management's comments on liquidity risks are presented in the chapter *Description of the main risks*.

Investment

Equity investments

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

Acquisition of investment properties

In the period, we did not purchase or sell any investment properties (properties held for resale, rental income or capital appreciation). There were no such transactions in the comparative period either (see note 15 to the financial statements).

Investments in property, plant and equipment and intangible assets

In 2014, investments in property, plant and equipment totalled 2,299 thousand euros (2013: 2,215 thousand euros). The investments fell into three broad categories: investments to replace obsolete machinery and equipment, investments to improve operating efficiency and investments to meet established road maintenance requirements.

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

Changes in the carrying amounts of relevant asset classes

Asset class (EUR '000)	2014	2013
Investments in equity-accounted investees (note 12)	128	364
Property, plant and equipment (note 16)	289	179
Intangible assets (note 17)	139	-363

In 2015, capital investments will remain at the same level as in 2014. The focus will be on replacing obsolete machinery and equipment and improving operating efficiency.

Key financial figures and ratios

Figure/ratio	2014	2013	2012	2011	2010
Revenue (EUR'000)	161,289	173,651	159,422	147,802	99,312
Revenue change	-7.1%	8.9%	7.9%	48.8%	-35.8%
Net profit/loss (EUR'000)	2,298	4,639	1,926	-4,708	-12,738
Profit/loss attributable to owners of the parent (EUR'000)	1,956	4,642	1,477	-5,304	-11,810
Weighted average number of shares	30,756,728	30,756,728	30,756,728	30,756,728	30,756,728
Earnings per share (EUR)	0.06	0.15	0.05	-0.17	-0.38
Administrative expenses to revenue	3.5%	2.8%	3.4%	3.1%	4.9%
EBITDA (EUR'000)*	5,585	7,639	4,833	-1,819	-5,375
EBITDA margin	3.5%	4.4%	3.0%	-1.2%	-5.4%
Gross margin	6.1%	6.5%	5.2%	0.1%	-0.7%
Operating margin	2.5%	3.1%	1.7%	-3.1%	-9.0%
Operating margin excluding gains on sale of real estate	2.3%	2.9%	1.4%	-3.5%	-9.4%
Net margin	1.4%	2.7%	1.2%	-3.2%	-12.8%
Return on invested capital	5.8%	9.5%	5.2%	-5.9%	-15.8%
Return on equity	6.4%	14.2%	6.6%	-15.2%	-32.6%
Equity ratio	37.3%	33.4%	27.1%	28.0%	35.1%
Return on assets	2.3%	4.3%	1.8%	-4.8%	-11.8%
Gearing	24.8%	23.5%	33.7%	32.8%	42.3%
Current ratio (note 5)	1.02	1.02	1.08	1.14	1.39
As at 31 December	**2014**	**2013**	**2012**	**2011**	**2010**
Order book (EUR'000)	83,544	64,286	127,259	134,043	85,607

* EBITDA for 2014 includes expenses of 192 thousand euros from write-down of goodwill and income of 414 thousand euros from the acquisition of negative goodwill (write-down of goodwill in 2013: 348 thousand euros; 2011: 425 thousand euros; 2010: 411 thousand euros).

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 gains on sale of real estate = ((operating profit - gains on sale of non-current assets – gains on sale of real estate)/revenue)*100	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

Order book

At 31 December 2014, our order book (backlog of contracts signed but not yet performed) stood at 83,544 thousand euros, a 30% increase compared with a year ago. Both Buildings and Infrastructure increased their order books.

The order book of the Infrastructure segment grew by 51% through work secured by the road construction sub-segment. There is a substantial amount of work signed but not yet performed under two large road construction projects: one in Tartu (design and construction work under construction package 5 of the Tartu western bypass) and the other one in Keila (reconstruction of the Keila-Valkse section of national road no. 8 Tallinn – Paldiski, km 24.9-29.5). In other sub-segments of the Infrastructure segment order books shrank considerably. The largest decrease occurred in environmental engineering but the decline in hydraulic engineering was steep as well.

The order book of the Buildings segment grew by around 23%. The commercial buildings sub-segment increased its order book substantially, mostly thanks to a rise in private sector investment. A substantial portion of work signed but not yet performed by the commercial buildings sub-segment is made up of the construction of a business building in Viimsi (Viimsi Keskus), a business building at Veerenni 24, an office building in Ülemiste City and the Eesti Loto building as well as the reconstruction of Estonia Spa.

EUR '000 As at 31 December	2014	2013	2012	2011	2010
Order book (EUR'000)	83,544	64,286	127,355*	134,043	85,607

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

At the reporting date, contracts secured by the Buildings segment and the Infrastructure segment accounted for 73% and 27% of the Group's order book respectively (2013: 77% and 23% respectively). The distribution is typical of the past year but radically different from earlier years when the figures for the two segments were more or less equal. It is likely that the change in the order book structure will persist for the next few years. In the current EU budget period (2014-2020) investments in infrastructure construction, which to date have mostly been made with the support of the EU structural funds, will not be as large as in 2007-2013. The new EU budget period is likely to have an impact on the construction sector at the end of 2015 at the earliest. Hence, we expect the revenues of the Infrastructure segment to decline in 2015 (for further information, see the *Business risks* section of the chapter *Description of the main risks*).

We believe that in a situation where the market stagnates and competition continues to be fierce, the main challenge is to maintain the Group's revenue and profitability.

Between the reporting date (31 December 2014) and the date of release of this report, Group companies have secured additional construction contracts in the region of 20,184 thousand euros.

People

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

Staff and personnel expenses

In 2014, the Group (the parent and the subsidiaries) employed, on average, 732 people including 357 engineers and technical personnel (ETP). Workforce decreased compared with 2013 due to shrinkage in operating volumes.

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

Year	Engineers and technical personnel	Workers	Total average
2014	357	375	**732**
2013	357	400	**757**
2012	367	397	**764**
2011	351	380	**731**
2010	362	412	**774**

The Group's team is dynamic. The average age of Group entities' management personnel is slightly above 40 and that of ETP 36. On average, our employees have been with us for 8 years and men and women account for 87% and 13% of the staff respectively. The indicators have not changed compared with 2013.

The Group's personnel expenses for 2014 including all taxes totalled 20,099 thousand euros, 3% down from 2013 when the figure was 20,664 thousand euros. The slight decrease is attributable to a decline in the number of staff.

In 2014, the service fees of the members of the council of Nordecon AS amounted to 141 thousand euros and associated social security charges totalled 47 thousand euros (2013: 141 thousand euros and 47 thousand euros respectively). The provision for their performance-related pay, made based on the Group's performance indicators, amounted to 113 thousand euros and the provision for associated social security charges totalled 37 thousand euros (2013: 14 thousand euros and 4 thousand euros respectively).

The service fees of the members of the board of Nordecon AS amounted to 262 thousand euros and associated social security charges totalled 87 thousand euros (2013: 195 thousand euros and 65 thousand euros respectively). The provision for their performance-related pay, made based on the Group's performance indicators, amounted to 387 thousand euros and the provision for associated social security charges totalled 128 thousand euros (2013: 51 thousand euros and 17 thousand euros respectively).

Labour productivity and labour cost efficiency

The period's nominal labour productivity dropped because revenue decrease exceeded the decline in workforce. However, the indicator weakened only in comparison with 2013 but remained higher than in earlier periods. The main factors that lowered nominal labour cost efficiency were provision of performance-related remuneration and a rise in basic salaries.

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:

	2014	2013	2012	2011	2010
Nominal labour productivity, (EUR'000)	220.4	229.4	208.7	202.3	128.3
Change against the comparative period	-4.0%	9.9%	3.2%	57.7%	-6.3%
Nominal labour cost efficiency	8.0	8.4	9.5	10.4	6.9
Change against the comparative period	-4.8%	-11.6%	-8.6%	51.6%	3.0%

Nominal labour productivity = revenue / average number of employees for the year
Nominal labour cost efficiency = revenue / personnel expenses for the year

Employee training and education

In 2014, our training activities continued to be aimed at providing opportunities for further professional training and improving professional qualifications. We have 79 ETP staff that have Civil Engineer IV, Diploma Civil Engineer V or some other certified qualification. We support gathering of personal references and encourage project managers and teams to implement new innovative technical solutions, which allow managing more complex and demanding projects. Teamwork and intra-Group knowledge sharing play an important role and we consistently organise various internal training courses.

We hire new specialists mostly from Tallinn University of Technology, Tallinn College of Engineering and the Estonian University of Life Sciences. In 2014, more than 30 of our ETP staff were studying at higher education institutions, half of them working for a master's degree.

Altogether, 74% of our engineers and technical personnel have or are obtaining higher education. We believe that it is important that students who are going to enter the labour market should be able to gain hands-on industry experience as early as possible. In 2014, our companies provided internship opportunities to 30 students from different educational institutions. Most of the interns were from Tallinn University of Technology and Tallinn College of Engineering but we also had interns from Järva County Vocational Training Centre, the Estonian University of Life Sciences, the Estonian Maritime Academy, Eindhoven University of Technology in the Netherlands and Copenhagen School of Design and Technology in Denmark.

Other human resource activities

Nordecon's employees are keen on sports – people from across the Group participate in running events such as the SEB May Run and the SEB Tallinn Marathon and our team takes part in the Tartu Complex Event. Twice a year Nordecon sends up to three teams to the Kuulsaal Bowling Tournament for Companies. Several times a year kayaking or canoeing trips as well as orienteering games and other events are organised for smaller groups of enthusiasts in picturesque places across Estonia. In autumn 2014, there was a bicycle trek to Kõrvemaa. It is also a tradition to go to the A Le Coq football stadium to support the Estonian national team.

Our people appreciate joint visits to construction sites. For example, in 2014 we organised trips to see assets under construction in central and southern Estonia. During the outings we visited not only our own construction sites but also those of our competitors such as the construction site of the Estonian National Museum.

In February 2014, we celebrated Nordecon's 25th anniversary in the Estonia Concert Hall with a concert and reception for our staff and business partners. The Group has a long-standing tradition of reviewing past performance and discussing future plans at the annual Winter Seminar held in February. There is always a visiting speaker who talks on a subject of general interest. In recent years we have listened to Dr Urmas Varblane, professor of International Business at the University of Tartu, Jüri Raidla, senior partner at Law Office Raidla Lejins & Norcous, Sandor Liive, chairman of the management board of Eesti Energia AS, and many others.

Charitable activities and social responsibility

Nordecon values education, culture and community engagement. Every year we support numerous charitable organisations and projects as well as social and community undertakings and initiatives. In 2014, 257 thousand euros was allocated to charitable causes (2013: 244 thousand euros).

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

Our companies are generous sponsors of sports. We have cooperation agreements with sports club Duo (volleyball club Bigbank Tartu) and the basketball club of the University of Tartu/Rock. During the year, we continued our cooperation with the young decathlete Rauno Liitmäe and the sailing athlete Karl-Martin Rammo who is pursuing the Rio de Janeiro Olympics. The purpose of the collaboration is to help gifted young athletes achieve the best possible results and thereby inspire young people to go in for sports and set ambitious goals.

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

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

Share and shareholders

Share information

Name of security	Nordecon AS ordinary share
Issuer	Nordecon AS
ISIN code	EE3100039496
Ticker symbol	NCN1T
Nominal value	No par value*
Total number of securities issued	32,375,483
Number of listed securities	32,375,483
Listing date	18 May 2006
Market	NASDAQ OMX Tallinn, Baltic Main List
Industry	Construction and engineering
Indexes	OMX_Baltic_Benchmark_Cap_GI; OMX_Baltic_Benchmark_Cap_PI OMX_Baltic_Benchmark_GI; OMX_Baltic_Benchmark_PI; OMX_Baltic_GI OMX_Baltic_PI; OMX Tallinn_GI; OMX_Baltic_Industrials_GI; OMX_Baltic_Industrials_PI

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

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

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

Summarised trading results

Share trading history

Price (EUR)	2014	2013	2012	2011	2010
Open	1.05	1.17	0.92	1.38	1.62
High	1.09	1.29	1.26	1.50	2.60
Average	1.02	1.13	1.02	1.16	1.53
Low	0.93	0.99	0.88	0.88	1.05
Last closing price	1.06	1.05	1.16	0.90	1.40
Traded volume (number of securities traded)	1,799,724	2,443,809	3,425,060	4,161,002	8,237,449
Turnover, in EUR millions	1.85	2.81	3.77	5.08	12.70
Listed volume (31 December), in thousands	32,375	30,757	30,757	30,757	30,757
Market capitalisation (31 December), in EUR millions	34.32	32.29	35.68	27.68	43.03

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

Ratio	2014	2013	2012	2011	2010
P/E	16.7	7.0	23.2	-*	-*
P/B	0.9	1.0	1.3	1.1	1.3

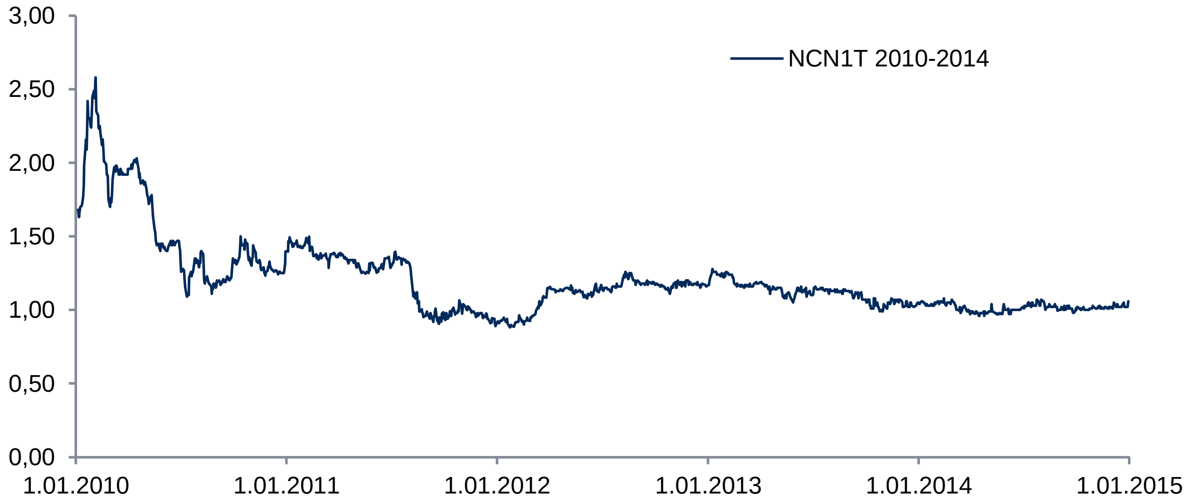
* The P/E ratio is not calculated when earnings per share are negative

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

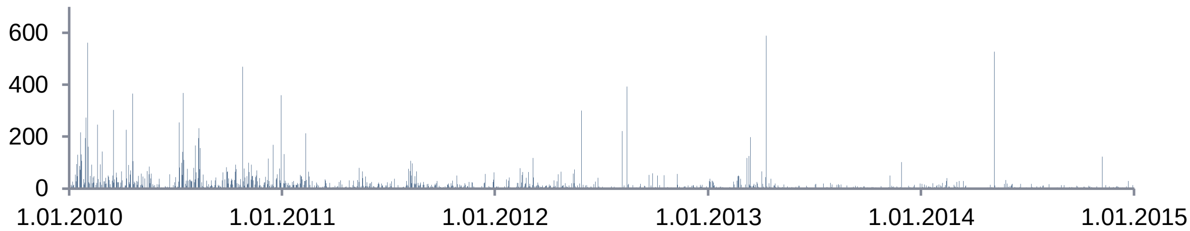
P/B = the period's last closing price of the share / (equity attributable to owners of the parent / number of shares outstanding)

Movements in the price and turnover of the Nordecon AS share in 2010-2014

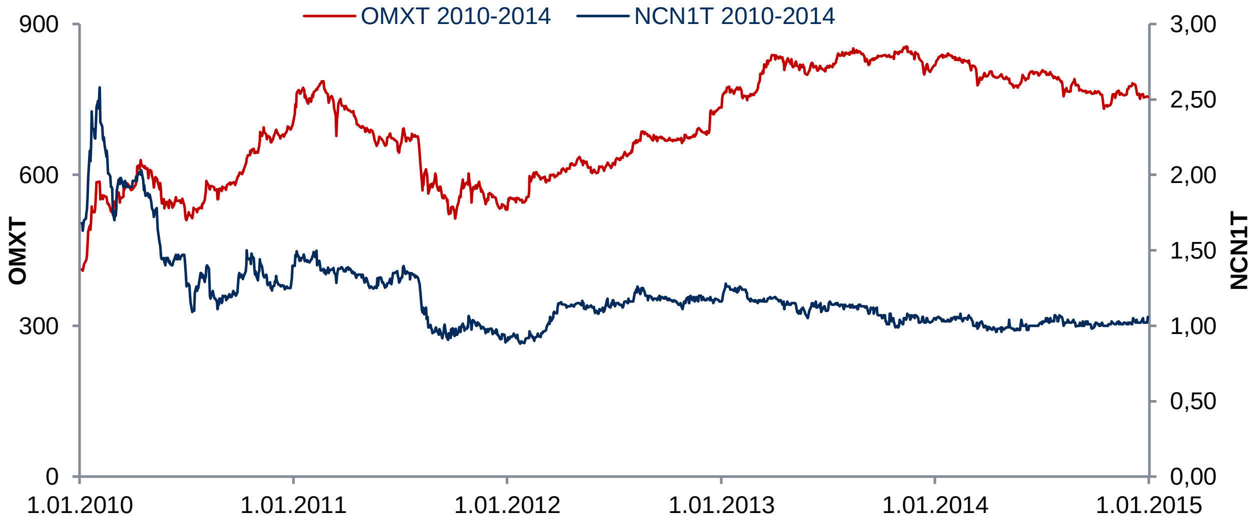
Movements in share price in euros



Daily turnover in thousands of euros



Movement of the share price compared with the OMX Tallinn index in 2010-2014



Index/equity	1 January 2010*	31 December 2014	+/-%
OMX Tallinn	404.58	755.05	86.63%
NCN1T	EUR 1.58	EUR 1.06	-32.91%

* Closing price on the NASDAQ OMX Tallinn Stock Exchange at 31 December 2009.

Shareholder structure

Largest shareholders in Nordecon AS at 31 December 2014

Shareholder	Number of shares	Ownership interest (%)
AS Nordic Contractors	16,507,464	50.99
Luksusjaht AS	3,143,584	9.71
ING Luxembourg S.A.	2,007,949	6.20
SEB Pank AS clients	679,279	2.10
Rondam AS	660,099	2.04
ASM Investments OÜ	519,600	1.60
Ain Tromp	478,960	1.48
State Street Bank and Trust Omnibus Account A Fund	447,365	1.38
Central Securities Depository Of Lithuania	351,024	1.08
SEB Elu- ja pensionikindlustus AS	262,000	0.81

Shareholder structure of Nordecon AS by ownership interest at 31 December 2014

	Number of shareholders	Ownership interest (%)
Shareholders with interest exceeding 5%	3	66.90
Shareholders with interest from 1% to 5%	6	9.69
Shareholders with interest below 1%	1,744	18.41
Holder of own (treasury) shares	1	5.00
Total	**1,754**	**100**

Shareholder structure by business line and legal form at 31 December 2014

Business line and legal form	Number of shares	Ownership interest (%)
Companies	24,071,924	74.35
Financial institutions (banks, investment funds)	4,586,645	14.17
Individuals	3,388,414	10.47
Insurance companies	328,500	1.01
Total	**32,375,483**	**100**

Shareholder structure by country of shareholder's domicile at 31 December 2014

Shareholder's domicile	Number of shares	Ownership interest (%)
Estonia	28,423,251	87.79
Luxembourg	2,237,267	6.91
USA	547,976	1.69
Lithuania	401,070	1.24
Sweden	390,165	1.21
Finland	139,819	0.43
Great Britain	111,481	0.34
Belgium	72,000	0.22
Latvia	22,459	0.07
Other countries	29,995	0.10
Total	**32,375,483**	**100**

Shares controlled by members of the council of Nordecon AS at 31 December 2014

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
Alar Kroodo (ASM Investments OÜ)	Member of the Council	519,600	1.60
Ain Tromp	Member of the Council	478,960	1.48
Andri Hõbemägi	Member of the Council	50,000	0.15
Tiina Mõis	Member of the Council	0	0.00
Meelis Milder	Member of the Council	0	0.00
Total		**17,627,704**	**54.44**

* Companies controlled by the individual

Shares controlled by members of the board of Nordecon AS at 31 December 2014

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

* Companies controlled by the individual

Share option plan

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

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

Restrictions related to shares

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

Dividend policy

Dividends distributed by Nordecon AS in previous years

Year of pay-out	Total dividends paid EUR '000	Number of shares, in thousands	Dividend per share EUR	Dividend pay-out ratio *
2006	1,917	3,482	0.55	34.6%
2007	2,949	15,378	0.19	26.1%
2008	5,897	30,757	0.19	34.5%
2009	1,966	30,757	0.06	21.1%
2010	0	30,757	0	0%
2011	0	30,757	0	0%
2012	0	30,757	0	0%
2013	0	30,757	0	0%
2014	923	30,757	0.03	19.9%

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

The board proposes that in 2015 the company should distribute for 2014 a net dividend of 0.03 euros per share (923 thousand euros in aggregate). Own (treasury shares) do not grant the company any shareholder rights.

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

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

Members of the council and board of Nordecon AS

Council

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

Toomas Luman (chairman of the council) – representative of AS Nordic Contractors and a majority shareholder

An engineer with a diploma in industrial and civil engineering from Tallinn Polytechnic Institute (today: Tallinn University of Technology), Toomas Luman is one of the founders of the Nordecon group and has been involved in the activities of the Group through its board and council for 26 years. Besides construction companies, he has held senior positions at various other enterprises (Tallinna Kaubamaja Grupp AS, AS E-Betoonelement, OÜ Väokivi, Eesti Energia AS, etc.). He is an active member of the community and has contributed to the development of the business environment, education and national defence. For over 19 years he has led the Estonian Chamber of Commerce and Industry and for many years has participated in the work of the professional association of Estonian construction enterprises. As chairman of the Chamber of Commerce, he was actively involved in preparatory activities for Estonia's accession to the EU and the euro-zone. Before Estonia joined the EU, Toomas Luman acted for four years as chairman of the consultative committee of the head of the Estonian state delegation in EU accession negotiations (the minister of foreign affairs). For ten years, Toomas Luman was chairman of the Board of Governors of Tallinn University of Technology. He is a major of the Estonian Defence Forces (in reserve) and chairman of the Board of Elders of the Estonian Reserve Officers' Association. He has been awarded the Order of the White Star of the Republic of Estonia (Fifth Class, Third Class and First Class) and he has received various awards from the Estonian Defence Forces, the Estonian National Defence League and other state and non-profit organisations. He has also received state awards from several other countries.

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

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

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

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

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

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

Andri Hõbemägi – representative of AS Nordic Contractors

Andri Hõbemägi is an economics graduate of Tallinn University of Technology. From 1993 to 2001 he worked for AS Hansapank (later renamed AS Swedbank). From 2001 to 2002 he was executive manager of football club FC Flora. In 2002 he became CFO of AS Eesti Ehitus (later renamed Nordecon AS). During his term of office the company's shares were listed on the Tallinn Stock Exchange. Currently he is chief analyst with AS Nordic

Contractors, the ultimate controlling shareholder in Nordecon AS. His community activities are aimed at the development of Estonian football and regional education.

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

Interests (exceeding 5%) in other companies: none

Tiina Mõis – independent member (as per the Corporate Governance Code of the Tallinn Stock Exchange)

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

Membership in the governing bodies of other organisations: AS Genteel and its subsidiaries and associates (board/council), AS Baltika (council), AS LHV Group (council), AS LHV Pank (council), Estonian Chamber of Commerce and Industry

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

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

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

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

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

Ain Tromp – representative of small shareholders/independent member (as per the Corporate Governance Code of the Tallinn Stock Exchange)

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

Membership in the governing bodies of other organisations: none

Interests (exceeding 5%) in other companies: none

Board

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

Jaano Vink, chairman of the board

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

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

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

Avo Ambur, member of the board

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

Membership in the governing bodies of other organisations: none

Interests (over 5%) in other companies: none

Erkki Suurorg, member of the board

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

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

Interests (over 5%) in other companies: none

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

Description of the main risks

Business risks

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

Compared with a year ago, competition has grown visibly in almost all segments of the construction market. In 2014, public sector investment plummeted and is not likely to recover noticeably in 2015. There is strong competitive pressure on builders' bid prices in a situation where input prices have remained relatively stable. Competition is particularly fierce in general building and utility network construction. We acknowledge the risks inherent in the execution of contracts concluded in an environment of stiff competition. Securing a long-term construction contract at an unreasonably low price in a situation where input prices cannot be lowered significantly and competition is fierce is risky because negative developments in the economy may quickly render the contract onerous. Thus, in price-setting we currently prioritize a reasonable balance of contract performance risks over plain revenue growth.

Demand for construction services continues to be strongly influenced by the volume of public sector 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 market, the effects of the EU funding are not likely to have an impact before the end of 2015.

In the light of the above factors, we do not expect any significant business growth in 2015. It is probable that the volumes of the Infrastructure segment will shrink moderately but the decline should be counterbalanced by increasing activity in the Buildings segment. Our action plan foresees redirecting our resources (including some of the labour of the Infrastructure segment) to increasing the share of contracts secured from the private sector. According to our business model, Nordecon operates in all segments of the construction market. Therefore, we are somewhat better positioned than companies that operate in one narrow (and in the current market situation particularly some infrastructure) segment.

The Group's business is also influenced by the fact that construction operations are seasonal. The impacts of seasonal fluctuations are the strongest in the Infrastructure segment where a lot of work is done outdoors (road and port construction, earthwork, etc.). To disperse the risk, we secure road maintenance contracts that generate year-round business. Our business strategy is to counteract seasonal fluctuations in infrastructure operations with building construction that is less exposed to seasonality. Thus, our long-term goal is to keep the two segments in balance (see also the chapter *Performance by business line*). In addition, where possible, our companies implement appropriate technical solutions that allow working efficiently 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 contracts are used. In addition, as a rule, subcontractors are required to secure performance of their obligations with a bank guarantee provided to a Group company or the Group retains part of the amount payable until the completion of the contract. To remedy builder-caused deficiencies, which may be detected during the warranty period, Group companies create warranty provisions based on their historical experience. At 31 December 2014, the Group's warranty provisions (including current and non-current ones) totalled 1,158 thousand euros. The figure for the previous year was 1,546 thousand euros.

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

Financial risks

Credit risk

In the period, the Group did not incur any major credit losses. The credit risk exposure of the Group's receivables continued to be low because the share of public sector customers is significant and the customers' settlement behaviour is monitored on an ongoing basis. The main indicator of the realization of credit risk is settlement default that exceeds 180 days coupled with no activity on the part of the debtor that would confirm the intent to settle.

In 2014, impairment losses on receivables amounted to 14 thousand euros (2013: 305 thousand euros).

Liquidity risk

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

At the reporting date, the Group's current assets exceeded its current liabilities 1.02-fold (31 December 2013: 1.02-fold). The key factors which influence the current ratio are classification of the Group's loans to its Ukrainian associates as non-current items and the banks' general policy not to refinance interest-bearing liabilities for a period exceeding twelve months.

The political situation in Ukraine remains tense and we believe that realization of our Ukrainian investment properties may take longer than originally expected. Accordingly, at the reporting date the Group's loan receivables from its Ukrainian associates of 10,767 thousand euros were classified as non-current assets. We tested the carrying amount of our Ukrainian development property for impairment as at the reporting date. The test did not indicate a need for recognising an impairment loss.

We continued to work with one of the world's leading consulting firms, Roland Berger Strategy Consultants, which helped us develop our financing program for 2014-2017. In line with the program, in 2014 the banks supported the Group's liquidity position by refinancing long-term loans and granting repayment holidays for loan principal. In addition, the banks provided the Group with additional short-term overdraft facilities of approximately 7.2 million euros for financing working capital needs. The Group repaid the short-term loans received under the financing program by the year-end, creating preconditions for gaining access to new limits in 2015.

At the reporting date, bank loans accounted for a significant share of our current liabilities. In accordance with IFRS EU, loan commitments have to be classified into current and non-current liabilities based on contract terms in force at the reporting date. Although, based on our agreements with the banks, it is likely that our overdraft liabilities and other short-term loans will be refinanced for another twelve months, relevant decisions will be made in 2015 when the loans fall due. Thus, at the year-end, the liabilities mostly constituted current items. According to our assessment, we can refinance short-term loans of 14,767 thousand euros of which repayment of 13,693 thousand euros will be deferred to 2016. This will improve the Group's liquidity position and associated ratios significantly (for further information, see the *Liquidity risk* section of note 5 *Financial risk management*).

At the reporting date, the Group's cash and cash equivalents totalled 8,802 thousand euros (31 December 2013: 12,575 thousand euros).

Interest rate risk

The Group's interest-bearing liabilities to banks have both fixed and floating interest rates. Finance lease liabilities have mainly floating interest rates. The base rate for most floating-rate contracts is EURIBOR. At 31 December 2014, the Group's interest-bearing loans and borrowings totalled 23,733 thousand euros, a decrease of 3,445 thousand euros year over year. The decline is mostly attributable to settlement of short-term bank loans and a decrease in the use of factoring services. Interest expense for 2014 amounted to 1,001 thousand euros, 54 thousand euros down from a year ago.

The main source of the Group's interest rate risk is the possibility of an upsurge in the base rate of floating interest rates (EURIBOR, EONIA or the creditor's own base rate). In the light of the Group's relatively heavy loan burden this would cause a significant increase in interest expense, which would have an adverse impact on 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. The Group does not use derivatives to hedge its interest rate risk.

Currency risk

As a rule, the prices of construction contracts and subcontracts are fixed in the currency of the host country, i.e., in euros (EUR) and Ukrainian hryvnias (UAH).

At the beginning of 2014, the political and economic environment in Ukraine became strained due to differences between Ukraine and Russia, which caused the exchange rate of the hryvnia to tumble. During the year, the hryvnia weakened against the euro by around 44%. For the Group's Ukrainian subsidiaries, this meant additional foreign exchange losses on the translation of their euro-denominated loan commitments into the local currency. Relevant exchange losses totalled 1,299 thousand euros (2013: an exchange loss of 144 thousand euros).

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

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

Since the beginning of 2015, the hryvnia has continued to weaken against the euro. From the beginning of the year until the date of release of this report, the exchange rate has weakened by around 17%.

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

Outlooks of the Group's geographical markets

Estonia

Processes and developments characterising the Estonian construction market

- In 2015 public sector investment will not grow markedly and the extent to which the investments can be realised is still unclear. Although in the 2014-2020 EU budget period allocations to Estonia will increase to 5.9 billion euros (2007-2013: 4.6 billion euros), the share of support that will influence the construction market will not increase. Instead, compared with the previous period, there will be a rise in allocations to other 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 will reach signature of a construction contract in 2015 will not increase significantly. As a result, the Estonian construction market (particularly segments related to infrastructure construction) will remain in relative stagnation. To a certain extent, the situation will be improved by the positive level of private sector investment in building construction.
- The protracted and painful consolidation of the construction market will continue, particularly in the segment of general contracting in building construction where the number of medium-sized operators (annual turnover of around 15-40 million euros) is too large, but more slowly than expected. Based on recent years' experience it is likely that stiff competition and insufficient demand will induce some general contractors to go slowly out of business or shrink in size rather than merge or exit the market. In our opinion, one of the factors that is slowing down the change is customers' (particularly public sector customers') desire to apply increasingly laxer tendering requirements in order to increase competition and lower the price even though this increases their own risks related to collateral, quality, adherence to deadlines and builder's liability.
- Competition will increase in all segments of the construction market. The average number of bidders for a contract has increased and there is a wide gap between the lowest bids made by winners and the average bids. The situation is somewhat similar to 2009 when expectations of shrinkage in demand prompted a fall in construction prices, which triggered a slide in the prices of many construction inputs. However, currently we do not see any downshift in input prices and companies that are banking on this in the bidding phase may run into difficulty. Construction prices and thus also profit margins are under strong competitive pressure.
- In new housing development, the success of a project depends on the developer's ability to control the input prices included in the business plan and thus to set an affordable sales price. Although the overall situation is improving steadily, the offering of new residential real estate cannot be increased dramatically because the prices of new apartments are relatively high compared with the standard of living and the banks' lending terms remain strict. Similarly to previous periods, successful projects include those that create or fill a niche.
- There is an increasing contrast between the stringent terms of public sector contracts, which impose on builders extensive obligations, strict sanctions, various financial guarantees, long settlement terms, etc., and the accommodating tendering requirements. Low qualification requirements and the precondition of making a low bid have made it easier to win a contract but have heightened the risks taken by customers in respect of contract performance and delivery.

- The prices of construction inputs will remain relatively stable. For a short term, shrinkage in demand may lower local subcontracting prices. However, taking into account the subcontractors' financial and human resources, the decline cannot be large or long-lasting. In some areas, price fluctuations are be unpredictable and, thus, notably greater and hard or even impossible to influence (oil and metal products, certain materials and equipment).
- Shortage of skilled labour (including project and site managers) will persist but this will weaken the quality of the construction process/service rather than the companies' performance capabilities. Shrinkage in Estonian construction volumes may increase labour supply but not substantially. Labour migration to the Nordic countries will remain steady and even though Nordic construction volumes (particularly in Finland) will also decline, the number of job seekers that will return will not increase considerably. This sustains pressure for a wage increase.

Latvia and Lithuania

The Latvian construction market, which was hit by a severe downturn a few years ago, has not regained sufficient stability and, similarly to the Estonian market, in 2015 it will probably be adversely affected by shrinkage in public sector demand. Accordingly, it is unlikely that we will enter the Latvian construction market permanently in 2015.

In the near term we may undertake some projects in Latvia through our Estonian entities, involving partners where necessary. Undertaking a project assumes that it can be performed profitably. The decision does not change our strategy for the future, i.e., the objective of operating in our neighbouring construction markets through local subsidiaries.

The operations of the Group's Lithuanian subsidiary, Nordecon Statyba UAB, are suspended. We monitor the market situation and may resume operations in the next few years because developments in the Lithuanian construction market have been quite positive in the Baltic context. Temporary suspension of operations does not cause any major costs for the Group and does not change our strategy for the future, i.e., the objective of operating in the Lithuanian construction market through local subsidiaries.

Ukraine

In Ukraine, we prefer to provide general contracting and project management services to foreign private sector customers in the segment of building construction. However, due to the market situation, we have also signed contracts with local investors where the terms have not involved any unjustified or uncontrollable risks. The unstable political and economic situation hinders adoption of business decisions but construction activity in Kiev has not halted. In 2015, the Group will continue its business in the Kiev region and our current Ukrainian order book is larger than a year ago. Despite the armed conflict in eastern Ukraine, for Nordecon the market situation in Kiev has not deteriorated compared with a year or two ago. Hard times have reduced the number of inefficient local (construction) companies and when the economy normalises we will have much better prospects for increasing our operations and profitability. We monitor the situation in the Ukrainian construction market closely and consistently and are ready to restructure our operations as and when necessary. Should the crisis spread to Kiev (currently highly unlikely), we can suspend our operations immediately. We continue to seek opportunities for exiting our two real estate projects that are on hold or signing a construction contract with a prospective new owner.

Finland

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

Sweden

In 2015, we started preparations for potential expansion into the Swedish market. We are planning to offer construction of residential and non-residential buildings, particularly in central Sweden.

Corporate governance report

Nordecon AS has observed the Corporate Governance Code (CGC) promulgated by the NASDAQ OMX Tallinn Stock Exchange since the flotation of its shares on the NASDAQ OMX Tallinn Stock Exchange on 18 May 2006. This report provides an overview of the governance of Nordecon AS in 2014 and its compliance with CGC. It is recommended that an issuer comply with CGC or explain any non-compliance in its corporate governance report. In 2013, Nordecon AS observed CGC unless indicated otherwise in this report.

General meeting

Exercise of shareholder rights

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

Shareholders may send questions about the agenda items before the general meeting to the company's registered address or e-mail address that are included in the notice of the general meeting. The company replies to all relevant questions before the general meeting on its website or during the meeting when the relevant agenda item is being discussed. In 2014, shareholders did not ask any questions about the agenda items before the general meeting. All questions and answers are available on the website until information about the next general meeting is published.

In 2014, the company was represented at the general meeting by all three members of the board who attended the meeting and were available to shareholders during the meeting. Chairman of the board, Jaano Vink, gave a presentation on the company's financial performance and answered shareholders' questions.

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

In 2014, Nordecon AS complied with the subsections of section 1.1 of the CGC that relate to shareholder rights.

Calling of a general meeting and information to be published

The annual general meeting of Nordecon AS took place on 27 May 2014. The meeting was held in the Conference Centre of the Radisson Blu Hotel Olümpia in Tallinn and it started at 9.30 am. The meeting was called by the board of Nordecon AS. An extraordinary general meeting took place on 9 July 2014 in the Conference Centre of the Radisson Blu Hotel Olümpia in Tallinn. The meeting started at 10.00 am. The extraordinary general meeting changed the resolution of the annual general meeting held on 27 May regarding the increase of share capital. It was decided that new shares should be issued with share premium.

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

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

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

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

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

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

In 2014, Nordecon AS complied with the subsections of section 1.2 of CGC that relate to calling a general meeting and information to be published.

Conduct of a general meeting

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

A general meeting is attended by all members of the board, the chairman of the council and, where possible, members of the council and at least one of the auditors. A general meeting is also attended by a candidate for a member of the council if the candidate has not been a member of the council before and the auditor candidate. In 2014, the general meeting was attended by chairman of the board Jaano Vink and members of the board Avo Ambur and Erkki Suurorg, chairman of the council Toomas Luman, members of the council Alar Kroodo and Andri Hõbemägi and the company's auditor Andres Root.

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

In 2014, Nordecon AS complied with the subsections of section 1.3 of CGC, except for 1.3.3. The company did not consider it practicable to make the annual general meeting available to observers and participants via the Internet.

Board

Responsibilities of the board

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

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

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

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

In 2014, the board and council of Nordecon AS exchanged information in accordance with relevant requirements. The board informed the council of the Group's performance and financial position on a regular basis.

In 2014, Nordecon AS complied with the subsections of section 2.1 of CGC that relate to responsibilities of the board.

Composition and remuneration of the board

Composition of the board

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

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

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

In 2014, the board had the following members:

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

In July 2014 the council decided to appoint Jaano Vink as chairman of the board of Nordecon AS for another three-year term commencing on 1 August 2014. To make sure that all members of the board can participate in the share option plan on an equal basis, members of the board Erkki Suurorg and Avo Ambur were recalled as from 31 July 2014 and were appointed as members of the board for another three-year period effective from 1 August 2014. The areas of responsibility of members of the board did not change.

Remuneration of the board

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

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

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

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

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

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

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

A board member is not eligible for termination benefits if the service contract is terminated at the board member's request, the board member is removed due to breach of the law, the board member breaches the service contract, or the board member's activities have caused direct damage to the company. Nor are any termination benefits paid when the parties agree to extend a board member's service contract for another term of office.

Under a share option plan approved by the general meeting in 2014, members of the board have been granted share options. Under option agreements that have been signed, the chairman of the board may acquire 291,380 shares and members of the board may acquire 250,000 shares in Nordecon AS. An option may be exercised when three years have passed since the signature of the option agreement but not before the company's general meeting has approved the company's annual report for 2016 in accordance with the procedure specified in the option agreement and the terms and conditions of the option plan. The share options may not be transferred. Exercise of options by members of the board is linked to achievement of the Group's EBITDA target for 2016 (from 4,491 thousand euros to 11,228 thousand euros).

In 2014, the service fees of the members of the board of Nordecon AS amounted to 262 thousand euros and associated social security charges totalled 87 thousand euros (2013: 195 thousand euros and 65 thousand euros respectively). Expenses on the provision for board members' performance-related pay, made based on the Group's performance indicators, amounted to 387 thousand euros and the provision for associated social security charges amounted 128 thousand euros (2013: 51 thousand euros and 17 thousand euros respectively).

In 2014, Nordecon AS complied with the subsections of section 2.2 of CGC, except for 2.2.7, that relate to the composition and remuneration of the board. The company does not disclose the individual remuneration of each member of the board because it believes the information has little significance but is highly sensitive in an environment of stiff competition.

Conflicts of interest

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

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

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

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

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

In 2014, Nordecon AS complied with the subsections of section 2.3 of CGC that relate to conflicts of interest.

Council

Responsibilities of the council

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

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

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

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

The chairman of the council maintains regular contact with the board and discusses with them issues related to the company's strategy, business operations and risk management. The chairman of the board has to notify the chairman of the council promptly of any significant event that may affect the company's development and management. The chairman of the council conveys the information to the council and, where necessary, calls an extraordinary meeting of the council.

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

In 2014, Nordecon AS complied with the subsections of section 3.1 of CGC that relate to the responsibilities of the council.

Composition and remuneration of the council

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

According to the articles of association, the council has three to seven members. The exact number is decided by the general meeting. Council members are elected by the general meeting for a term of five years. Members of the council elect a chairman from among themselves. In 2014, the council had the following members:

Name	Position	Beginning of term of office	End of term of office
Toomas Luman	Chairman of the Council, representative of AS Nordic Contractors	9 January 2006	13 May 2015
Alar Kroodo	Vice-chairman of the Council, representative of small shareholders	9 January 2006	13 May 2015
Andri Hõbemägi	Member of the Council, representative of AS Nordic Contractors	25 May 2013	24 May 2018
Tiina Mõis	Member of the Council, independent	9 January 2006	13 May 2015
Meelis Milder	Member of the Council, independent	9 January 2006	13 May 2015
Ain Tromp	Member of the Council, independent	9 January 2006	13 May 2015

The general meeting decides the council's remuneration and its payment procedure based on the nature and scope of the council's responsibilities and the company's financial position. Depending on the nature of the council's work, shareholders may take into account the specific features of the work done by the chairman of the council.

According to a resolution adopted by the general meeting on 28 May 2012, from 1 January 2012 the chairman's basic monthly service fee is 5,700 euros, the vice-chairman's basic monthly service fee is 2,850 euros and the basic monthly service fee of other council members is 800 euros. In addition, the general meeting resolved to create a performance-related pay system for the chairman and vice-chairman of the council. Performance-related pay is linked to achievement of Nordecon AS's targets for the financial year and it is calculated and paid on the same basis as the performance-related pay of the members of the board of Nordecon AS. The performance-related pay provided to the chairman and vice-chairman of the council may not exceed two thirds and one third respectively of the performance-related pay calculated for a member of the board.

In 2014, the service fees of the members of the council of Nordecon AS amounted to 141 thousand euros and associated social security charges totalled 47 thousand euros (2013: 141 thousand euros and 47 thousand euros respectively). Expenses on the provision for council members' performance-related pay, made based on the Group's performance indicators, amounted to 113 thousand euros and the provision for associated social security charges amounted 37 thousand euros (2013: 14 thousand euros and 4 thousand euros respectively).

In 2014, Nordecon AS complied with the subsections of section 3.2 of CGC that relate to council members' responsibilities.

Conflicts of interest

Members of the council avoid conflicts of interest. In their activity as council members, they put the company's interests before those of their own or third parties. Members of the council may not use business offerings made to the company for their personal gain.

A member of the council may not vote at a meeting in matters concerning provision of consent for a transaction between Nordecon AS and the member of the council or a similar conflict of interest involving a party connected with the member of the council. A member of the council may not compete with Nordecon AS without the consent of the general meeting or use for personal gain any business offerings made to the company.

In 2014, Nordecon AS complied with the subsections of section 3.3 of CGC that relate to council members' responsibilities.

Cooperation of the board and the council

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

In 2014, the board and the council worked closely in monitoring completion of the company's development plan and achievement of the company's strategic objectives for 2014-2017. The board observes the council's strategic instructions and discusses strategic management issues with the council on a regular basis.

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

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

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

In 2014, Nordecon AS complied with the subsections of sections 4.1 to 4.3 of CGC that relate to cooperation between the board and the council.

Disclosure of information

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

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

The company discloses information in accordance with the rules of the NASDAQ OMX Tallinn Stock Exchange and the provisions of the Estonian Securities Act. In 2014, the company's threshold for notifying of significant construction contracts was 3.2 million euros. In 2014, Nordecon AS made 28 stock exchange announcements that were released concurrently via the information system of the NASDAQ OMX Tallinn Stock Exchange and the company's website.

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

Meetings with investors and financial analysts

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

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

In 2014, Nordecon AS complied with chapter 5 of CGC that relates to disclosure of information, except for the following sections:

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

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

Financial reporting and auditing

Financial reporting

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

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

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

The company has disclosed in the financial statements financial information on companies that have not been consolidated but in which the company has a significant interest (note 12) and transactions with shareholders (note 38).

In 2014, Nordecon AS complied with the subsections of section 6.1 of CGC, except for 6.1.1, that relate to financial reporting.

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

Auditing

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

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

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

In the reporting period, the auditor's services comprised the agreed audit services as well as tax advice, translation services and other work including agreed-upon procedures. Altogether, the fees Nordecon AS paid to the auditor in 2014 totalled 38 thousand euros.

The auditor provided the audit committee formed by the council with a written memorandum on the company's audit of 2014, the auditor's findings and other significant matters that were discussed with the board.

In 2014, Nordecon AS complied with the subsections of section 6.2 of CGC that relate to auditing.

Management's confirmation and signatures

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

Jaano Vink	Chairman of the Board	21 April 2015
Avo Ambur	Member of the Board	21 April 2015
Erkki Suurorg	Member of the Board	21 April 2015

Consolidated financial statements

Consolidated statement of financial position

EUR '000 As at 31 December	Note	2014	2013
ASSETS			
Current assets			
Cash and cash equivalents	8	8,802	12,575
Trade and other receivables	9	23,235	28,101
Prepayments	10	1,201	1,923
Inventories	11	24,788	23,785
Total current assets		**58,026**	**66,384**
Non-current assets			
Investments in equity-accounted investees	12	694	566
Other investments	14	26	26
Trade and other receivables	9	11,211	10,645
Investment property	15	3,549	3,549
Property, plant and equipment	16	9,319	9,030
Intangible assets	17	14,633	14,494
Total non-current assets		**39,432**	**38,310**
TOTAL ASSETS		**97,458**	**104,694**
LIABILITIES			
Current liabilities			
Loans and borrowings	18	20,588	23,875
Trade payables	20	26,267	26,372
Other payables	21	7,542	7,982
Deferred income	22	1,786	6,102
Provisions	23	799	913
Total current liabilities		**56,982**	**65,244**
Non-current liabilities			
Loans and borrowings	18	3,145	3,303
Trade payables	20	109	156
Other payables	21	96	96
Provisions	23	759	969
Total non-current liabilities		**4,109**	**4,524**
TOTAL LIABILITIES		**61,091**	**69,768**
EQUITY			
Share capital	24	20,692	19,657
Own (treasury) shares		-1,582	0
Share premium		547	0
Statutory capital reserve	24	2,554	2,554
Translation reserve	24	771	-298
Retained earnings		11,714	10,681
Total equity attributable to owners of the parent		**34,696**	**32,594**
Non-controlling interests		**1,671**	**2,332**
TOTAL EQUITY		**36,367**	**34,926**
TOTAL LIABILITIES AND EQUITY		**97,458**	**104,694**

The notes on pages 42-93 are an integral part of these consolidated financial statements.

Consolidated statement of comprehensive income

EUR '000	Note	2014	2013
Revenue	27	161,289	173,651
Cost of sales	30	-151,476	-162,342
Gross profit		**9,813**	**11,309**
Marketing and distribution expenses		-558	-452
Administrative expenses	31	-5,656	-4,922
Other operating income	32	792	464
Other operating expenses	32	-376	-1,096
Operating profit		**4,015**	**5,303**
Finance income	33	738	668
Finance costs	33	-2,301	-1,027
Net finance costs		**-1,563**	**-359**
Share of profit/loss of equity-accounted investees	12	85	-170
Profit before income tax		**2,537**	**4,774**
Income tax expense	34	-239	-135
Profit for the year		**2,298**	**4,639**
Other comprehensive income:			
Items that may be reclassified subsequently to profit or loss			
Exchange differences on translating foreign operations		1,069	106
Total other comprehensive income		**1,069**	**106**
TOTAL COMPREHENSIVE INCOME		**3,367**	**4,745**
Profit attributable to:			
- Owners of the parent	25	1,956	4,642
- Non-controlling interests		342	-3
Profit for the year		**2,298**	**4,639**
Total comprehensive income attributable to:			
- Owners of the parent		3,025	4,748
- Non-controlling interests		342	-3
Total comprehensive income for the year		**3,367**	**4,745**
Earnings per share attributable to owners of the parent:			
Basic earnings per share (EUR)	25	0.06	0.15
Diluted earnings per share (EUR)	25	0.06	0.15

The notes on pages 42-93 are an integral part of these consolidated financial statements.

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Consolidated statement of cash flows

EUR '000	Note	2014	2013
Cash flows from operating activities			
Cash receipts from customers[1]		192,701	204,768
Cash paid to suppliers[2]		-163,690	-175,465
VAT paid		-5,429	-5,131
Cash paid to and for employees		-19,384	-18,647
Income tax paid		-184	-99
Net cash from operating activities		**4,014**	**5,426**
Cash flows from investing activities			
Paid on acquisition of property, plant and equipment		-355	-458
Paid on acquisition of intangible assets		-13	0
Proceeds from sale of property, plant and equipment		189	317
Acquisition of investments in subsidiaries		-737	0
Acquisition of investments in associates	12	-44	-616
Cash from liquidation of investments in associates		1	0
Loans provided		-292	-922
Repayment of loans provided		227	245
Dividends received		4	4
Interest received		7	616
Net cash used in investing activities		**-1,013**	**-814**
Cash flows from financing activities			
Proceeds from loans received		7,815	3,440
Repayment of loans received		-11,194	-2,970
Dividends paid		-1,432	-121
Finance lease principal paid		-852	-1,670
Interest paid		-940	-945
Other payments made		-168	0
Net cash used in financing activities		**-6,771**	**-2,266**
Net cash flow		**-3,770**	**2,346**
Cash and cash equivalents at beginning of period		**12,575**	**10,231**
Effect of movements in foreign exchange rates		-3	-2
Decrease/increase in cash and cash equivalents		-3,770	2,346
Cash and cash equivalents at end of period		**8,802**	**12,575**

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

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

The notes on pages 42-93 are an integral part of these consolidated financial statements.

Consolidated statement of changes in equity

EUR '000	Equity attributable to owners of the parent								
	Share capital	Treasury shares	Share premium	Capital reserve	Translation reserve	Retained earnings	Total	Non-controlling interests	Total
Balance at 31 December 2012	**19,657**	**0**	**0**	**2,554**	**-404**	**6,039**	**27,846**	**2,456**	**30,302**
Profit for the year	0	0	0	0	0	4,642	4,642	-3	4,639
Other comprehensive income	0	0	0	0	106	0	106	0	106
Transactions with owners									
Dividend distribution	0	0	0	0	0	0	0	-121	-121
Total transactions with owners	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**-121**	**-121**
Balance at 31 December 2013	**19,657**	**0**	**0**	**2,554**	**-298**	**10,681**	**32,594**	**2,332**	**34,926**
Profit for the year	0	0	0	0	0	1,956	1,956	342	2,298
Other comprehensive income	0	0	0	0	1,069	0	1,069	0	1,069
Changes in non-controlling interests	0	0	0	0	0	0	0	-922	-922
Transactions with owners									
Increase of share capital	1,035	-1,582	547	0	0	0	0	0	0
Dividend distribution	0	0	0	0	0	-923	-923	-81	-1,004
Total transactions with owners	**1,035**	**-1,582**	**547**	**0**	**0**	**-923**	**-923**	**-81**	**-1,004**
Balance at 31 December 2014	**20,692**	**-1,582**	**547**	**2,554**	**771**	**11,714**	**34,696**	**1,671**	**36,367**

Further information on share capital and other equity items is provided in note 24.

The notes on pages 42-93 are an integral part of these consolidated financial statements.

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NOTE 1. Reporting entity

Nordecon AS is a company incorporated and domiciled in Estonia. The address of the company's registered office is Pärnu mnt 158/1, Tallinn 11317, Estonia. The company's ultimate controlling shareholder is AS Nordic Contractors that holds 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 consolidated financial statements of Nordecon AS (also referred to as 'the company' and 'the parent') as at and for the year ended 31 December 2014 comprise the company and its subsidiaries (together referred to as 'the Group') and the Group's interests in associates and joint ventures. The Group's primary activities are building and infrastructure construction and, within strategic limits, real estate development. In addition to Estonia, the Group operates through its subsidiaries and associates in Lithuania, Ukraine and Finland.

NOTE 2. Statement of compliance and basis of preparation

Statement of compliance

The consolidated financial statements of Nordecon AS group as at and for the year ended 31 December 2014 have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS EU). The parent company's primary financial statements are presented in note 40 to the consolidated financial statements because this is required by the Estonian Accounting Act.

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

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

The board authorised these consolidated financial statements for issue on 21 April 2015.

Basis of measurement

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

Functional and presentation currency

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

Use of significant accounting estimates and judgements

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

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

In 2014, the Group conducted most of its business in Estonia where the year was characterised by slow but steady economic growth. Estonia's GDP grew by 2.1% (2013: 0.8%). The main drivers of economic growth were retail and wholesale trade and, to a lesser extent, manufacturing, and professional, scientific and technical activities. GDP growth was impeded by transportation and storage, and construction, which for years had been among the key contributors to GDP growth.

In 2014, the Estonian construction companies' total output (in current prices) was 2.1 billion euros, 3% down from 2013. Building and infrastructure construction accounted for 1.3 billion euros and 0.8 billion euros of the total respectively. The real estate market sustained growth: the total value of real estate transactions conducted in 2014 was 2.29 billion euros (2013: 2.07 billion euros). The real estate market was active in the segment of completed residential real estate but interest in plots without buildings and relevant transaction activity continued to be low.

The factor, which impacted the construction market the most, was the decline in infrastructure construction, which contracted by around one tenth. Demand for construction services continues to be strongly influenced by public sector investment, which in turn depends on the co-financing received from the EU structural funds. In the new EU budget period (2014-2020), the share of support assigned to the construction sector will not be as large as in the previous budget period and it will probably not have any impact before the end of 2015.

Thus, management has had to make estimates and exercise judgement in an environment where reliable broad-based information on the market prices of some assets is often unobtainable and global economic developments cause some uncertainty about the outlook of the construction and real estate markets.

Critical estimates (E) and judgements (J) that have the most significant effect on the financial statements relate to the following areas:

Recognition of construction contract revenue by reference to the stage of completion method (note 28) (E)

When the outcome of a construction contract can be estimated reliably, contract revenue is recognised by reference to the stage of completion of the contract activity at the reporting date. The Group estimates the stage of completion by systematic budgeting, keeping track of actual revenues and expenses and adjusting estimates made. The estimated outcome of each construction contract is subject to ongoing control by different levels of management that analyse any deviations from the budget and revise the estimate as and when necessary.

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

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

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

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

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

On estimating the values of properties (plots of land) acquired for development, the Group relies on valuation reports issued by independent certified real estate appraisers and, where necessary, the calculations of its own real estate specialists. Most of the properties have a detailed design plan or proceedings for adoption of a detailed design plan have been started. The properties are located in different regions across Estonia (Tallinn, Tartu, Pärnu and Narva). Although in 2014 the number and total value of transactions in the real estate market increased, the reports issued by certified real estate appraisers state that it is still not possible to measure the sales prices (market values) of all properties (plots) without buildings that are in the initial stage of development sufficiently reliably using the sales comparison method. Most of the Group's properties fall into that category.

Accordingly, in addition to the sales comparison method applied by real estate appraisers, the Group measured the values of properties acquired for development using the residual value method. The residual value method assumes making more estimates than the sales comparison method. Under the residual value method, the value of a property is the sum that remains from the estimated revenue from the sale of the development project planned on the property after deduction of the estimated construction and other development costs and the developer's reasonable profit margin.

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The valuations were performed by the Group's real estate specialists with the assistance of external experts. The valuations were performed separately for each property, taking into account the opportunities and specific features of the detailed design plan or the planned building rights (including the region and location of the property). Based on the valuation results, there was no need to write the properties down. A sensitivity analysis of the valuations is presented in the notes to these financial statements.

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

Both on initial recognition and subsequent reclassification, properties (items of real estate) are classified to inventories, investment properties and items of property, plant and equipment on the basis of management's intentions regarding their further use. Investment properties comprise properties held to earn rentals or for capital appreciation or both.

Investment properties are measured to fair value using four methods: the discounted cash flow method, the sales comparison method, the existence of a sales contract (under the law of obligations) at the reporting date or the residual value method (see note 5 for information on the application of the methods). The first three are based on appraisals made by third parties or contain a significant amount of market information. Therefore they are preferred over the residual value method. The residual value method, which assumes somewhat more extensive estimation, is used when other methods cannot be applied.

To determine the fair values of its investment properties the Group requested valuation reports from independent certified real estate appraisers. Owing to the situation in the real estate market in the region where the Group's investment properties are located (Pärnu), appraisers stated in their reports that the market value of the properties could not be determined reliably. Although the sales comparison method used by the appraisers was the most appropriate for making the appraisal, the number of transactions with properties without buildings was too small in that region. Consequently, it was not possible to obtain sufficient reliable information as required by the valuation standards and to value the properties reliably using the sales comparison method. Thus, at the reporting date the Group had no basis for adjusting the fair values of its investment properties based on the sales comparison method.

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

Due to the above reasons, the Group measured the values of its investment properties using the residual value method. The valuations were performed separately for each property, taking into account the opportunities and specific features of the detailed design plan or the planned building rights (including the region and location of the property). Based on valuation results, there was no need to write down any of the investment properties. A sensitivity analysis of the valuations is presented in the notes to these financial statements.

Provisions and contingent liabilities (notes 23 and 36) (E)

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

The Group makes provisions for warranty expenses. The provisions are recognised after the completion of construction activity and delivery of the work to the customer. As a rule, a warranty is given for two years but in recent years customers have started demanding longer warranty periods (three to five years). The amount of post-construction warranty liabilities is determined based on historical data on actual warranty expenses, which generally extend to up to 0.4% of total contract costs. Depending on the complexity of the project, the Group may recognise a warranty provision that exceeds historical data.

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

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

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

Measurement of goodwill (note 17) (E)

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

The projected net cash flows, which include both working capital investments and capital expenditures incurred to maintain assets in the state they are in at the time the estimate is made, are discounted at the weighted average cost of capital (both debt and equity capital). The net operating cash flows of CGUs do not depend on the capital structure of the specific entity. Therefore, in determining the discount rate, the proportions of debt and equity capital have been identified based on the industry's average ratios in the Damodaran database. The discount rates used for estimating the value in use of the Group's CGUs range from 7.6% to 11.1%.

Measurement of loans provided (note 9) (E)

In accordance with the Group's accounting policies, loans provided are measured at their amortised cost using the effective interest rate method. Management assesses each loan receivable on an individual basis. On deciding whether there is a need to write a loan receivable down either in part or in full, the following is taken into account: the debtor's financial position, the estimated cash flows and the value of the asset or assets that serve as loan collateral.

NOTE 3. Significant accounting policies

Basis of consolidation

Business combinations of independent entities and acquisition of goodwill

Business combinations between independent parties are accounted for by applying the acquisition method whereby the identifiable assets acquired and the liabilities and contingent liabilities assumed (net assets acquired) are recognised and measured at their fair values at the acquisition date, i.e., at the date on which control of the acquiree is obtained. Any difference between the cost of the business combination and the fair value of the net assets acquired is recognised as goodwill. Transaction costs, i.e., the costs incurred in connection with a business combination (except for the costs to issue debt or equity instruments for acquisition) are not considered part of the cost of the business combination. Such costs are recognised in profit or loss as incurred. The acquiree's income and expenses are included in the Group's profit or loss and the goodwill acquired in a business combination is recognised in the Group's statement of financial position from the date of acquisition.

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

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

Business combinations of entities under common control

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

Subsidiaries

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

Associates and joint ventures

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

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

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

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

Joint operations

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

Transactions eliminated on consolidation

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

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

Translation of the financial statements of foreign subsidiaries

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

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

	Date	Lithuanian litas (LTL)	Ukrainian hryvnia (UAH)*
1 euro (EUR)	31 December 2013	3.4528	11.0415
1 euro (EUR)	31 December 2014	3.4528	19.2329

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

Foreign currency transactions

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

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

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

Financial assets

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

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

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

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

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

Financial assets at fair value through profit or loss

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

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

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

Held-to-maturity investments

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

Loans and receivables

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

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

Available-for-sale financial assets

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

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

Cash and cash equivalents

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

Financial liabilities

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

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

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

Factoring

Accounting for proceeds from the sale of trade receivables (factoring) depends on whether the purchaser (the factor) has the right to transfer the receivable back to the seller in the event of the debtor's default (factoring with recourse) or whether there is no such right (factoring without recourse).

In the case of factoring without recourse, the proceeds are recognised as a reduction of trade receivables. The difference between the proceeds and the carrying amount of the receivable is recognised as an expense. Factoring with recourse is accounted for as a financing transaction with receivables as collateral. Until the factor receives the final payment from the debtor, the proceeds are recognised as interest-bearing liabilities. The difference between the proceeds and the carrying amount of the receivable is recognised in finance costs.

Inventories

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

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

Finished goods include apartments which have been completed through real estate development and are available for sale; the apartments are measured at the costs incurred in achieving their completion.

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

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

Investment property

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

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

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

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

Property, plant and equipment

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

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

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

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

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

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

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

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

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

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

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

Borrowing costs

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

Intangible assets

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

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

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

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

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

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

Goodwill

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

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. The goodwill allocated to equity-accounted investees is included in the cost of the investees.

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

Research and development expenditures

Research expenditures include expenditures incurred in investigation and research activities undertaken with the prospect of gaining new scientific or technical knowledge or gathering relevant information. Research expenditures are related to the creation of a scientific or technical basis for the development of new products or services and they are recognised as an expense as incurred.

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

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

Impairment of assets

Impairment of financial assets

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

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

Financial assets measured at amortised cost

An impairment loss on loans and receivables and held-to-maturity investments measured at amortised cost is recognised when the carrying amount of the asset exceeds its recoverable amount. Impairment losses on loans and receivables are recognised in profit or loss in the period in which they are incurred. Recognition of interest income on an asset that has been written down continues. When a financial asset for which an impairment loss has been recognised is recovered or another event occurs that reverses the impairment loss that has been recognised, the reversal is recognised in profit or loss by reducing the line item where the impairment loss was originally recognised.

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

Available-for-sale financial assets

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

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

Impairment of non-financial assets

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

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

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

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

Provisions and contingent liabilities

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

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

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

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

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

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

Short-term employee benefits

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

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

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

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

Share-based payments

The option agreements signed with the Group's key personnel are accounted for as consideration provided in the form of equity instruments for services rendered to the Group. Owing to the difficulty of measuring directly the fair value of services received by the Group, the fair value of services received from the Group's key personnel is measured by reference to the fair value of the equity instruments granted at grant date. The cost of equity-settled share-based payment transactions is recognised as an expense and a corresponding increase in equity over the periods in which the employee renders the services until the vesting date. At each reporting date, the Group recognises expenses from share-based payment transactions based on an estimate of the number of equity instruments expected to vest. Any change in the cumulatively calculated consideration since the beginning of the reporting period is recognised as an expense or income in the statement of comprehensive income, as appropriate. The grant of share options is conditional upon the member of the key personnel remaining in the Group's employ until the vesting date and the satisfaction of certain performance conditions.

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

Leases

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

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

The Group recognises assets leased out under finance leases in its statement of financial position and presents them as receivables at an amount equal to the net investment in the lease. Lease payments of different periods are treated as reduction of the principal and as finance income, which is recognised over the lease term by applying the interest rate implicit in the lease.

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

Statutory capital reserve

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

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

Earnings per share

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

Income tax

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

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

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

Under the Estonian Income Tax Act, corporate income tax is not levied on profit earned but on profit distributions. Until 31 December 2014, the amount of tax payable on a dividend distribution was calculated as 21/79 of the amount of the net distribution. From the beginning of 2015, the amount of tax payable is calculated as 20/80 of the net distribution. The income tax payable on dividends is recognised in profit or loss in the period in which the dividends are declared.

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

Foreign subsidiaries, associates and joint ventures

In Ukraine, Finland and Lithuania corporate profits are subject to income tax. The income tax rates are as follows: Ukraine 19% (2013: 19%), Finland 24.5% (2013: 24.5%) and Lithuania 15% (2013: 15%). Taxable profit is calculated by adjusting profit before tax for permanent and temporary differences between the carrying amounts and tax bases of assets and liabilities as permitted by the local tax laws.

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

Segment reporting

An operating segment is a component of the Group that engages in business activity and whose financial performance comprises items that are directly attributable to it (including revenue and profit on transactions with the Group's other operating segments). The financial performance of a segment may also include items that are allocated to segments on a reasonable basis. Financial items that cannot be allocated relate to the parent company's administrative activities or do not have a reasonable basis for allocation.

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

Revenue

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

Revenue from construction contracts

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

Revenue from rendering of other services

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

Revenue from sale of goods purchased and finished goods

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

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

Finance income

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

Government grants

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

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

Construction contracts in progress

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

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

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

Discontinued operations

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

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

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

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

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

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

NOTE 4. Changes in accounting policies and presentation of information

New and revised standards and interpretations effective for the reporting period

The following new and revised standards, amendments to standards, and interpretations as adopted by the European Union that became effective for annual periods beginning on 1 January 2014 had an impact on the Group's financial statements:

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

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

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

During the reporting period, the Group did not recognise or reverse such impairment losses.

The following new and revised standards, amendments and interpretations as adopted by the European Union, which became effective as from 1 January 2014, had no effect on the Group's financial statements:

- IFRS 10 *Consolidated Financial Statements* (effective for annual periods beginning on or after 1 January 2014; to be applied retrospectively when there is a change in control conclusion)
- IFRS 11 *Joint Arrangements* (effective for annual periods beginning on or after 1 January 2014; to be applied retrospectively subject to transitional provisions)
- IFRS 12 *Disclosure of Interests in Other Entities* (effective for annual periods beginning on or after 1 January 2014; to be applied retrospectively)
- IAS 28 (2011) *Investments in Associates and Joint Ventures* (effective for annual periods beginning on or after 1 January 2014; to be applied retrospectively)
- Amendments to IAS 32 *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities* (effective for annual periods beginning on or after 1 January 2014; to be applied retrospectively)
- Amendments to IAS 39 – *Novation of Derivatives and Continuation of Hedge Accounting* (effective for annual periods beginning on or after 1 January 2014; to be applied retrospectively).

New and revised standards and interpretations as at 31 December 2014

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

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

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

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

- Amendments to IAS 19 – *Defined Benefit Plans: Employee Contributions* (Effective for annual periods beginning on or after 1 February 2015. The amendments apply retrospectively. Earlier application is permitted.)

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- IFRIC 21 *Levies* (Effective for annual periods beginning on or after 17 June 2014; to be applied retrospectively. Earlier application is permitted.)

Annual improvements to IFRS

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

NOTE 5. Financial risk management

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

- Credit risk
- Liquidity risk
- Market risk

The Group's risk management process is based on the premise that effective risk management assumes ongoing recognition and accurate assessment of the potential impacts of the risks faced by the Group as well as adherence to the risk management policies in place. The main objective of relevant activities is to prevent and manage risks which could have an adverse impact on the adequacy of working capital required for carrying out the Group's core business and which could jeopardise the Group's compliance with the terms and conditions set by providers of debt capital, adequacy of the Group's equity and the Group's ability to continue as a going concern.

The Group establishes risk management policies and implements action plans aimed at identifying and analysing risks, monitoring risk levels and dispersing risks across time, activities and geographical areas. In financial risk management, the key role is played by the finance and accounting department of Nordecon AS that is responsible for risk assessment and designing and implementing risk assessment and risk management action plans. As a rule, the risk management policies established by Nordecon AS also apply to the subsidiaries. Ultimate responsibility for risk management rests with the boards of Group entities. Depending on internal work arrangement, risk management may also be the responsibility of an entity's council or an audit committee formed by the council.

Credit risk

Credit risk is the risk that the counterparty to a financial instrument will cause a financial loss for the Group by failing to discharge an obligation and thus the Group will not receive the cash flows to which it is entitled. The Group's main sources of credit risk are trade receivables and loans provided.

The factors, which have the strongest impact on the Group's credit risk exposure, are the specific circumstances of each customer. In addition, the Group's management considers more general features such as the customer's legal status (private or state-owned entity), geographical location, industry, and the economic situation in the country involved as these factors may also influence the Group's exposure to credit risk. Based on the Group's experience, private sector customers have the highest credit risk while the credit risk of government institutions and local governments is the lowest. The latter assessment is confirmed by the fact that there has been practically no need to write down receivables from public sector customers, mostly thanks to their stable solvency. Although revenue from public sector projects has decreased, in 2014 public sector projects accounted for around 33% of the Group's revenue (2013: around 60%). Similarly to previous years, the largest public sector customer was the Estonian Road Administration whose contracts accounted for around 20% of the Group's revenue.

Credit risk management involves both preventive activities (analysis of counterparties' creditworthiness) and limitation of the concentration and accumulation of risks. Group entities perform transactions only with counterparties that have been considered creditworthy by management. In the case of customers with whom the Group has prior experience, credit risk is mainly assessed based on the customer's past settlement behaviour. In the case of high-risk counterparties, services are rendered and goods are sold on a prepayment basis only.

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

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

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

Liquidity risk

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

- The Group's business is seasonal in nature, particularly in the infrastructure segment. In the first quarter, business volumes and profit margins are the lowest and the Group needs to use the cash buffers accumulated in previous periods to cover operating and administrative expenses. In the second and third quarters, growth in operations triggers the need for additional working capital.
- Due to the settlement conditions prevailing in the construction market, the Group generally collects payments from customers within 30 to 56 days and makes payments to subcontractors within 21 to 45 days. The deficit in working capital, which arises from the mismatch between settlements received and made has to be covered with internal funds or using the credit lines provided by financial institutions.
- To ensure efficient performance of its operating activities, the Group needs to invest in plant and equipment and real estate.
- The Group has to settle its loan and lease liabilities on a timely basis.

Short-term liquidity management is based on Group entities' approved annual budgets and investment plans. The main tools for short-term liquidity management are cash pooling facilities (cash pool accounts), which combine the Group's monetary resources and help mitigate seasonal fluctuations in Group entities' liquidity. Additional short-term financing needs are satisfied with overdraft and factoring facilities provided by banks.

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

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

The Group's liquidity position in 2015

At the reporting date, the Group's current assets and current liabilities amounted to 58,026 thousand euros and 56,982 thousand euros respectively (current ratio was 1.02). Current liabilities include loan liabilities of 20,588 thousand euros. During the period 2009-2011 the Group operated with a loss, which reduced the free cash flows that could be used for settling financial liabilities. Since spring 2011, the Group has been working with the international consulting firm Roland Berger Strategy Consultants and its main financing partners to find ways for optimising the structure of its financial liabilities and thus ensure the sustainability of its operating activities. For this, the financing partners have refinanced the Group's short-term overdrafts, granted repayment holidays for long-term loans in the period 2014-2017 and provided the Group with additional short-term overdraft facilities for counteracting seasonal fluctuations in its cash flows (2014: 7,200 thousand euros). The activities will continue in 2015. By the date of release of this report, part of relevant negotiations has already been successfully completed. The practice of the financing partners is not to refinance liabilities for a period exceeding twelve months. Therefore, a substantial portion of the Group's financial liabilities as at the reporting date is made up of current items.

Based on its financing plan for 2015, the Group believes that in 2015 loan liabilities of 14,767 thousand euros, which at the reporting date were classified as current items, can be refinanced and that 13,693 thousand euros (short-term overdrafts of 7,464 thousand euros and long-term loans of 6,229 thousand euros) of this amount can be refinanced for a period exceeding twelve months. By the date of release of this report, banks have approved refinancing agreements on 4,401 thousand euros. During and at the end of the reporting period, the Group was in compliance with all loan covenants applicable to its financial position.

After adjustment for the above amounts, current assets and current liabilities would amount to 58,026 thousand euros and 43,289 thousand euros respectively (current ratio would be 1.34). In addition, according to the financing

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plan, in 2015 the financing partners will support the Group's liquidity position with additional overdraft facilities of approximately 6,000 thousand euros.

In the light of the above, the Group's management is confident that in 2015 the Group's liquidity position will be adequate to allow the Group to continue sustainable and profitable operating activities and to settle its liabilities to counterparties on a timely basis.

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

Market risk

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

Currency risk

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

The Ukrainian national currency, the hryvnia (UAH), floats against other currencies. The Ukrainian Group entities' currency risk exposure arises from financial instruments that are denominated in currencies other than the hryvnia, for example, US dollar- or euro-based loan and lease liabilities. At the beginning of 2014, the political and economic environment in Ukraine became strained due to differences between Ukraine and Russia, which caused the exchange rate of the hryvnia to tumble. During the year, the hryvnia weakened against the euro by around 44%. For the Group's Ukrainian subsidiaries, this meant additional exchange losses on the translation of their euro-denominated loan commitments into the local currency. Relevant exchange losses totalled 1,299 thousand euros (2013: an exchange loss of 144 thousand euros). Exchange gains and losses on financial instruments are reported in *Finance income* and *Finance costs* in the statement of comprehensive income. Translation of receivables and liabilities from operating activities did not give rise to any exchange gains or losses. Nor do the loans provided to the Group's Ukrainian associates in euros give rise to exchange losses that ought to be recognised in the Group's statement of comprehensive income.

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

Since the beginning of 2015 the Ukrainian hryvnia has continued to weaken against the euro. From the beginning of the year until the date of release of this report, the exchange rate has weakened by around 17%.

At the reporting date, the Group had no currency risk exposures in Lithuania because the Group's Lithuanian operations have been suspended. At the reporting date, the exchange rate of the Lithuanian litas (LTL) against the euro was fixed and the Lithuanian subsidiary did not have financial instruments denominated in currencies other than the euro and the Lithuanian litas. At the reporting date, the Group's non-Lithuanian entities had no financial instruments denominated in litas. On 1 January 2015, Lithuania joined the euro area and the euro replaced the Lithuanian litas at the exchange rate of 3.4528 litas per 1 euro.

Interest rate risk

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

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

Country risk

At the reporting date, the Group conducted active business operations in two foreign markets: Ukraine and Finland. Revenues generated in those countries accounted for 2.0% and 4.1% of the Group's total revenue respectively (2013: Ukraine 0.5% and Finland 4.9%) and assets located in Ukraine and Finland accounted for 0.4% and 1.6% of the Group's total assets respectively (2013: Ukraine 0.5% and Finland 1.8%).

In 2014, the political and economic situation in Ukraine became increasingly strained due to differences between Ukraine and Russia. Economic uncertainty caused the Ukrainian hryvnia to plummet against the euro. The Group's exchange losses from the weakening of the hryvnia were around 1.3 million euros for the year. In recent years, the

Group's activity under its existing Ukrainian contracts has been subdued and highly conservative, with work done in the capital Kiev only.

In 2014, the military conflict raging 700 km away in eastern Ukraine did not have a direct impact on the Group's activities, mostly because the number of local employees had already been reduced to a minimum during earlier periods of the recession and the Group has only accepted contracts where management has been certain that the risks involved are reasonable in the circumstances. Despite the complicated situation in the eastern part of the country, the Group was able to increase its operations in Ukraine compared with 2013.

Real estate development projects that require extensive investment (the Group has currently stakes in two development projects that are on hold) remain suspended to minimise the risks until the situation in Ukraine stabilises (note 38). To secure one of the investments, the Group and its co-owners privatised the land held by the associate V.I. Center TOV and encumbered it with mortgages to secure the loans provided by the Group and other owners.

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

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

Determination of fair value

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

Financial instruments

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

For disclosure purposes, fair values have been determined as follows:

- Trade and other receivables – the fair value assessment for trade and other receivables (except for receivables related to construction contracts in progress) is based on the present value of their future cash flows discounted at the market interest rate at the reporting date. Non-current fixed-interest financial assets are discounted by applying the average market interest rate at the reporting date.
- Long-term financial assets – the fair value assessment for long-term financial assets is based on the present value of their discounted future net cash flow.
- Financial liabilities – the fair value assessment for financial liabilities is based on the discounted present value of the future principal and interest payments. The discount rate applied is the average market interest rate for similar liabilities at the reporting date as outlined in the statistics released by the Bank of Estonia.

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

Investment property

Properties that have been classified as investment properties are measured at their fair values. Where necessary, fair value is determined based on the expert opinions of certified independent real estate appraisers. Fair value is determined using the following methods:

- Discounted cash flow method – To calculate the value of a property's discounted cash flows, the appraiser forecasts the property's future rental income (including rental per square metre and the occupancy rate) and associated operating expenses. Depending on the terms of the existing lease (whether and how easily the lease can be terminated by the tenant), the appraiser will base the projections on either the property's existing cash flows or the market's current average cash flows for similar properties. The present value of the future net cash flow is found by applying a discount rate which best reflects the market's expectations of a rate of return appropriate for the asset and the risks specific to the asset. The

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discounted cash flow method is used to determine the value of properties that generate stable rental income.

- Sales comparison method – Under this method, the fair value of a property is determined by reference to the price per square metre agreed in transactions performed with similar properties in similar circumstances. This method is used to determine the value of properties that do not generate rental income but are held for resale or capital appreciation. As the transactions selected for comparison are practically never identical with the property being valued, their prices are adjusted to reflect differences in time, location, size and phase of the detailed design plan. Application of this method assumes that a sufficient number of arm's length transactions with similar properties are performed in the area in which the property is located around the time the valuation is performed (comparable transactions have to have occurred no more than a year before the valuation).
- Price in a contract under the law of obligations – The fair value of properties which at the reporting date have been sold by a contract under the law of obligations but whose real right contract[3] has not yet been signed is determined based on the sales price of the property in the contract under the law of obligations. The method is used for determining the fair value of a property only when the Group has reasonable assurance that the related real right contract will be concluded under the same terms and conditions (e.g., the buyer has made a substantial prepayment by the reporting date or the real right contract is concluded after the reporting date but before the date management authorises the financial statements for issue). The method is also used when a contract under the law of obligations is signed after the reporting date but the terms of the transactions have been agreed before the end of the reporting period and they have not changed significantly by the date of the transaction.
- Residual value method – Under this method the fair value of a property is the sum that remains from estimated project revenue after the deduction of estimated construction and other development costs and the developer's reasonable profit margin. The residual value method is used when the above methods cannot be applied. The residual value method assumes somewhat more extensive estimation. The valuation is performed separately for each property, taking into account the opportunities and specific features of the detailed design plan or the planned building rights (including the region and location of the property). When fair value is determined using the residual value method, the expected rate of return has to be comparable to those prevailing in the market.

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

Hence, the Group measured the fair values of its investment properties using the residual value method. The valuations were performed by the Group's real estate specialists with the assistance of external experts. Based on the valuation results, there was no need to recognise a change in the fair value of investment properties. The impact of changes in estimates on the value of the Group's investment properties is presented in note 15.

Capital management

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

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

The Group's gearing ratio has increased slightly compared with the previous year. The Group used operating cash flow to settle a larger amount of long-term financial liabilities than was settled in previous years and reduced use of factoring. The share of equity within invested capital increased through profit earned during the year.

Gearing ratio is at a level where it does not influence the Group's capital management policies and does not require the Group to raise additional share capital. The ceiling of the gearing ratio is linked to the size of equity. Based on the statutory minimum equity requirements (see the next section), the gearing ratio as at the reporting date could have extended to 59% (2013: 51%) assuming all other variables remained constant.

EUR '000	2014	2013
Total interest-bearing liabilities (note 18)	23,733	27,179
Cash and cash equivalents (note 8)	-8,802	-12,575
Net interest-bearing liabilities	14,931	14,604
Total equity	36,367	34,926
Invested capital (interest-bearing liabilities + equity)	60,100	62,105
Gearing ratio*	25%	24%

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

Minimum capital requirements

At the reporting date, loan agreements signed with the banks required the Group to maintain the equity ratio (equity to equity and liabilities) at 25% or above (actual ratio at the end of 2014: 37.3%; 2013: 33.4%).

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

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

Dividend policy

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

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

Dividends distributed by Nordecon AS in previous years

Year of pay-out	Total dividends paid EUR '000	Number of shares, in thousands	Dividend per share EUR	Dividend pay-out ratio *
2007	2,949	15,378	0.19	26.1%
2008	5,897	30,757	0.19	34.5%
2009	1,966	30,757	0.06	21.1%
2010	0	30,757	0	0%
2011	0	30,757	0	0%
2012	0	30,757	0	0%
2013	0	30,757	0	0%
2014	923	30,757	0.03	19.9%

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

The board proposes that in 2015 the company should distribute for 2014 a net dividend of 0.03 euros per share (923 thousand euros in aggregate). Own (treasury shares) do not grant the company any shareholder rights (note 25).

NOTE 6. Group entities

The consolidated financial statements of Nordecon group as at and for the year ended 31 December 2014 include 23 subsidiaries (2013: 23), 19 of them operating in Estonia(2013: 19), 2 in Ukraine (2013: 2), 1 in Lithuania (2013: 1) and 1 in Finland (2013: 1).

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

Subsidiary	Core business	Country of incorporation	Ownership interest 2014 (%)	Ownership interest 2013 (%)
Nordecon Betoon OÜ	Concrete works	Estonia	52	52
Eston Ehitus AS	Building construction	Estonia	100	98
Järva Teed AS	Road construction and maintenance	Estonia	100	100
Hiiu Teed OÜ	Road construction and maintenance	Estonia	100	100
Kaurits OÜ	Leasing out heavy equipment	Estonia	66	66
EE Ressursid OÜ	Geological surveying	Estonia	100	100
Kalda Kodu OÜ	Real estate development	Estonia	100	99
Magasini 29 OÜ	Real estate development	Estonia	100	98
Eurocon OÜ[4]	Holding company (UKR)	Estonia	96	64
Eurocon Vara OÜ	Holding company (UKR)	Estonia	100	100
Eurocon Ukraine TOV	Building construction	Ukraine	100	100
Instar Property TOV[4]	Real estate development	Ukraine	98	98
Estcon Oy	Concrete works	Finland	52	52
Nordecon Statyba UAB[4]	Building construction	Lithuania	80	70

[4] Dormant

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

At 31 December 2014, the Group had interests in 4 associates (2013: 5) and 1 joint venture (2013: 1). Further information on equity-accounted investees is presented in note 12.

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

NOTE 7. Changes in Group structure

Acquisition of investments in subsidiaries

Acquisition of non-controlling interest in AS Eston Ehitus

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

Through the transaction, the Group also became the sole shareholder in the subsidiaries Kalda Kodu OÜ and Magasini 29 OÜ.

Cost of the transaction and goodwill acquired

	EUR '000
Cost of interest acquired	180
Fair value of net assets acquired	87
Goodwill	**93**

The goodwill of 93 thousand euros was recognised in the statement of financial position and was not written down.

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Acquisition of non-controlling interest in OÜ Eurocon

In August 2014, Nordecon AS acquired from non-controlling shareholders 5.8% and at the beginning of September a further 8.2% stake in Eurocon OÜ, 14% in total, which raised Nordecon AS's interest in Eurocon OÜ to 78%.

Cost of the transaction and goodwill acquired

	EUR '000
Cost of interest acquired	539
Fair value of net assets acquired	411
Goodwill	**128**

The goodwill of 128 thousand euros was written down in connection with uncertainty about the Group's operations in Ukraine. The write-down was recognised within other operating expenses (note 32).

In October 2014, Nordecon AS acquired from non-controlling shareholders a further 18% stake in Eurocon OÜ. The transaction raised Nordecon AS's interest in Eurocon OÜ to 96%.

Cost of the transaction and negative goodwill acquired

	EUR '000
Cost of interest acquired	18
Fair value of net assets acquired	432
Negative goodwill	**-414**

The negative goodwill of 414 thousand euros was recognised within other operating income (note 32).

Acquisition of non-controlling interest in Nordecon Statyba UAB

In December 2014, Nordecon AS acquired from non-controlling shareholders a further 10% stake in Nordecon Statyba UAB. The transaction raised Nordecon AS's interest in Nordecon Statyba UAB to 80%.

Cost of the transaction and goodwill acquired

	EUR '000
Cost of interest acquired	62
Fair value of net assets acquired	-2
Goodwill	**64**

The goodwill of 64 thousand euros was written down because the company is dormant. The write-down was recognised within other operating expenses (note 32).

NOTE 8. Cash and cash equivalents

EUR '000	31 December 2014	31 December 2013
Current accounts	8,802	12,575
Total cash and cash equivalents	**8,802**	**12,575**

The amounts in current accounts are placed in overnight deposits with banks. In the reporting period, the interest rates of overnight deposits ranged from 0.10% to 0.25% (2013: 0.05% to 0.10%). Most of the Group's current accounts are with the following banking groups: Swedbank, Nordea Bank, SEB, Danske Bank.

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

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NOTE 9. Trade and other receivables

EUR '000 Current items	Note	31 December 2014	31 December 2013
Trade receivables	35	13,435	17,255
Retentions receivable	28, 36	858	3,541
Receivables from related parties	35, 38	2	138
Loans to related parties	35, 38	2,116	1,786
Miscellaneous receivables		1,505	1,733
Total receivables and loans provided		**17,916**	**24,453**
Due from customers for contract work	28, 35	5,319	3,648
Total current trade and other receivables		**23,235**	**28,101**

EUR '000 Non-current items	Note	31 December 2014	31 December 2013
Loans to related parties	35, 38	10,768	10,267
Receivables from related parties		0	61
Miscellaneous non-current receivables		443	317
Total non-current trade and other receivables		**11,211**	**10,645**

Trade receivables are presented net of the impairment allowance, which at the year-end amounted to -26 thousand euros (31 December 2013: -55 thousand euros). Changes in the impairment allowance are disclosed in note 35.

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

NOTE 10. Prepayments

EUR '000	31 December 2014	31 December 2013
Prepayments to suppliers	657	1,312
Prepaid taxes	364	392
Prepaid expenses	180	219
Total prepayments	**1,201**	**1,923**

Prepayments to suppliers comprise prepayments for services of 582 thousand euros (31 December 2013: 945 thousand euros) and for building materials of 75 thousand euros (31 December 2013: 367 thousand euros).

NOTE 11. Inventories

EUR '000	31 December 2014	31 December 2013
Raw materials and consumables	3,963	3,623
Work in progress	4,192	5,061
Finished goods	2,915	878
Goods for resale and properties held for development	13,718	14,223
Total inventories	**24,788**	**23,785**

Raw materials and consumables comprise materials acquired for construction and road maintenance operations. In 2014, there were no significant write-downs of materials and consumables (2013: no write-downs).

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

EUR '000	31 December 2014	31 December 2013
Capitalised pre-development expenditures	2,601	2,844
Other construction projects	1,591	2,217
Total	**4,192**	**5,061**
Of which borrowing costs	**955**	**851**

Finished goods comprise the construction costs of apartments completed but not yet sold. In the reporting period, the net realisable values of the apartments did not decrease below their carrying amounts and no write-downs were recognised (2013: no write-downs). Net realisable values were estimated based on a comparison with the market prices of similar apartments.

At the reporting date, the total carrying value of properties (plots) acquired for real estate development was 13,718 thousand euros (2013: 14,223 thousand euros). A property acquired for development is carried within *Goods for resale and properties held for development* until it is sold as a separate asset or its development reaches the phase where the building on it is ready for sale at which point the property or part of it is reclassified to finished goods. All post-acquisition pre-development expenditures that qualify for capitalisation are recognised within work in progress. At 31 December 2014, properties acquired for development were carried at cost except for one plot that was carried at market value estimated by independent real estate appraisers. In the reporting period, no properties (plots) acquired for development were written down (2013: a write-down of 330 thousand euros) (note 32).

Information on inventories pledged as collateral is provided in note 37.

Potential impact of changes in estimates

The Group measured the net realisable values of properties (plots of land) acquired for development using the residual value method. One of the key valuation inputs was the estimated amount of future cash flows (estimated sales price of apartments per square metre). A sensitivity analysis showed that if actual sales proceeds decreased by 10% (compared with the estimate), properties acquired for development would have to be written down by around 2,082 thousand euros.

The net realisable values of apartments completed but not sold were measured by reference to the actual sales prices of similar apartments sold near the reporting date. One of the key valuation inputs was price per square metre. A sensitivity analysis showed that if actual sales proceeds decreased by 10% (compared with the estimate), completed but unsold apartments would have to be written down by around 373 thousand euros.

NOTE 12. Investments in equity-accounted investees

General information on equity-accounted investees

Name and type of investee		Domicile	Group's interest 31 December 2014	31 December 2013	Business line
V.I. Center TOV	Associate	Ukraine	44%	44%	Real estate development
Technopolis-2 TOV	Associate	Ukraine	50%	50%	Real estate development
Kastani Kinnisvara OÜ	Associate	Estonia	26%	26%	Real estate development
Sepavara OÜ	Associate	Estonia	0%	49%	Real estate development
Pigipada OÜ	Associate	Estonia	49%	49%	Bitumen refining
Unigate OÜ	Joint venture	Estonia	50%	50%	Real estate development

Carrying amounts of equity-accounted investees

EUR '000	31 December 2014	31 December 2013
Investments in equity-accounted investees (associates and joint ventures)	694	566
Total investments in equity-accounted investees	**694**	**566**

Financial information on equity-accounted investees

2014

Summary financial information on associates, presented as separate companies

EUR '000	31 December 2014			2014		31 December 2014
Associate	Assets	Liabilities	Equity	Revenue	Profit/loss	Carrying value of investment in the Group's accounts
V.I. Center TOV	8,871	20,142	-11,271	32	-9,524	0
Technopolis-2 TOV	282	2,496	-2,214	0	-1,295	0
Kastani Kinnisvara OÜ	226	201	25	62	-80	13
Pigipada OÜ	1,511	202	1,309	6,836	488	641
Total	**10,890**	**23,041**	**-12,151**	**6,930**	**-10,411**	**654**

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

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

In the reporting period, shareholders restored the negative equity of Kastani Kinnisvara OÜ through monetary contributions. The Group paid 44 thousand euros (note 38).

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

EUR '000	31 December 2014				2014		31 December 2014
Joint venture	Current assets	Non-current assets	Current liabilities	Non-current liabilities	Revenue	Expenses	Carrying value of investment in the Group's accounts
Unigate OÜ	3,677	0	3,597	0	0	230	40

2013

Summary financial information on associates, presented as separate companies

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

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

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

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

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

EUR '000	Recorded in 2014			Recorded in 2013		
	Profit/ loss	In the Group's profit or loss	Off the statement of financial position	Profit/ loss	In the Group's profit or loss	Off the statement of financial position
V.I. Center TOV	-4,191	0	-4,191	-436	0	-436
Technopolis-2 TOV	-648	0	-648	-180	0	-180
Kastani Kinnisvara OÜ	-40	-40	0	-42	-257	0
Sepavara OÜ	1	1	0	200	0	200
Pigipada OÜ	239	239	0	201	201	0
Unigate OÜ	-115	-115	0	-114	-114	0
Total	**-4,753**	**85**	**-4,838**	**-371**	**-170**	**-416**

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NOTE 13. Participation in joint operations

The Group participates in joint operations that are conducted under partnership contracts. The contracts set forth the share of revenue each party is entitled to and the share of expenses to be borne by each partner. The parties have not established companies for conducting the joint operations, therefore each party recognises in its financial statements the assets used for construction, the liabilities and expenses incurred and the income earned in accordance with the business entity principle and no adjustments or other consolidation procedures are performed on preparing the consolidated financial statements. In 2014, the Group did not sign any new partnership contracts.

Name of joint operation	**Group's interest**		**Total value of contract**	
EUR '000	**2014**	**2013**	**2014**	**2013**
Design and construction of the Aruvalla-Kose road section	0%	99%	0	40,330
Design and construction of construction package no 1 of Tartu city eastern ring road	0%	99%	0	14,496

NOTE 14. Other long-term investments

EUR '000	**31 December 2014**	**31 December 2013**
Other long-term investments	26	26
Total other long-term investments	**26**	**26**

Other long-term investments comprise the Group's 12% interest in E-Trading AS, which is measured at cost because its fair value cannot be measured reliably. In 2014, the carrying amount of the investment did not change.

NOTE 15. Investment property

EUR '000	**2014**	**2013**
Investment property at 1 January	**3,549**	**4,930**
Reclassification to inventories	0	-1,381
Investment property at 31 December	**3,549**	**3,549**

The period's rental income on investment properties amounted to 11 thousand euros (2013: 10 thousand euros) and direct property management expenses totalled 9 thousand euros (2013: 2 thousand euros). Investment properties that do not generate rental income did not give rise to any significant property management expenses. Information on assets pledged as collateral for financial liabilities is provided in note 37.

The Group measured the fair values of its investment properties using the residual value method (see note 2 for a description). Both investment properties have a valid detailed design plan; the intended purpose of one is commercial land and that of the other is production land. The areas of the properties are around 15 thousand and 42 thousand square metres. According to their intended purpose, the construction prices of the buildings planned on the plots (one input of the residual value method) are around 600 euros and 438 euros per square metre. The construction price of the building planned on commercial land is relatively low because its location sets lower functionality requirements. Rental charges are up to 8.5 euros per square metre for commercial and up to 5 euros per square metre for production premises. Index-linked growth in rental and other income is up to 2.5% per year.

Under the fair value measurement hierarchy provided in IFRS 13 *Fair Value Measurement*, the two investment properties have been categorised to Level 3, which means that their fair value has been measured using unobservable inputs (inputs for which market data is not available). The valuation of investment properties as at the end of 2014 had no impact on the Group's net profit or other comprehensive income for the year.

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

Potential impact of changes in estimates

A rise in construction prices has a direct impact on the outcome of the measurement of the fair value of investment property. The Group tested the impact of a 5% increase in construction prices on the valuation computations on the assumption that all other variables remain constant. The test reflected that if construction prices rose by 5%, investment property would have to be written down by around 691 thousand euros.

Another key valuation assumption of the residual value method is the compliance of the applied rate of return expected by the owner with prevailing market conditions. The rates applied on valuation were around 15%. Taking into account the location and phase of development of the properties, the Group believes that the rates correspond to those expected on the market. A sensitivity analysis showed that if the expected rate of return were 3% higher, investment properties would have to be written down by around 1,169 thousand euros.

NOTE 16. Property, plant and equipment

EUR '000	Land and buildings	Plant and equipment	Other items of PP&E	Assets under construction	Total
Cost					
At 31 December 2012	**2,394**	**19,007**	**3,463**	**128**	**24,992**
Additions	72	1,859	211	73	2,215
Reclassification	0	-172	172	0	0
Disposals	0	-1,659	-109	0	-1,768
Effect of movements in exchange rates	0	-15	7	0	-8
At 31 December 2013	**2,466**	**19,020**	**3,744**	**201**	**25,431**
Additions	176	2,029	90	4	2,299
Reclassification	0	0	0	0	0
Disposals	0	-1,575	-236	-87	-1,898
Effect of movements in exchange rates	0	-31	-37	0	-68
At 31 December 2014	**2,642**	**19,443**	**3,561**	**118**	**25,764**
Accumulated depreciation					
At 31 December 2012	**475**	**12,839**	**2,827**	**0**	**16,141**
Depreciation for the year	87	1,425	376	1	1,889
Disposals	0	-1,518	-103	0	-1,621
Effect of movements in exchange rates	0	-8	0	0	-8
At 31 December 2013	**562**	**12,738**	**3,100**	**1**	**16,401**
Depreciation for the year	90	1,466	236	0	1,792
Disposals	0	-1,477	-224	0	-1,701
Effect of movements in exchange rates	0	-9	-37	-1	-47
At 31 December 2014	**652**	**12,718**	**3,075**	**0**	**16,445**
Carrying amount					
At 31 December 2012	**1,919**	**6,168**	**636**	**128**	**8,851**
At 31 December 2013	**1,904**	**6,282**	**644**	**200**	**9,030**
At 31 December 2014	**1,990**	**6,725**	**486**	**118**	**9,319**

Group entities have secured their liabilities by mortgaging their land and buildings. Information on assets pledged as collateral is provided in note 37.

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

Depreciation expense has been recognised in the *cost of sales* in an amount of 1,762 thousand euros (2013: 1,818 thousand euros) (note 30) and in *administrative expenses* in an amount of 30 thousand euros (2013: 71 thousand euros) (note 31).

Assets leased under finance leases (included in property, plant and equipment)

EUR '000	2014			2013		
	Plant and equipment	Other items of PP&E	Total	Plant and equipment	Other items of PP&E	Total
Cost at 31 December	11,526	250	11,776	10,711	250	10,961
Carrying amount at 31 December	4,868	121	4,989	5,489	156	5,646

In 2014, the Group signed new finance lease contracts of 1,890 thousand euros (2013: 1,772 thousand euros).

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NOTE 17. Intangible assets

EUR '000	Note	Goodwill	Software licences	Trademarks	Development expenditures	Total
Cost						
At 31 December 2012		**14,426**	**49**	**863**	**323**	**15,661**
Additions		0	0	0	84	84
Write-down	32	-348	0	0	0	-348
At 31 December 2013		**14,078**	**49**	**863**	**407**	**15,397**
Additions		290	0	0	50	340
Write-down	32	-192	0	0	0	-192
At 31 December 2014		**14,176**	**49**	**863**	**457**	**15,545**
Accumulated amortisation						
At 31 December 2012		**0**	**45**	**759**	**0**	**804**
Amortisation for the year		0	3	96	0	99
At 31 December 2013		**0**	**48**	**855**	**0**	**903**
Amortisation for the year		0	1	8	0	9
At 31 December 2014		**0**	**49**	**863**	**0**	**912**
Carrying amount						
At 31 December 2012		**14,426**	**4**	**104**	**323**	**14,857**
At 31 December 2013		**14,078**	**1**	**8**	**407**	**14,494**
At 31 December 2014		**14,176**	**0**	**0**	**457**	**14,633**

Capitalised development expenditures result from preparations made for the extraction of sand deposits from the seabed. The preparations will continue in 2015.

Amortisation has been recognised in *administrative expenses* in an amount of 9 thousand euros (2013: 99 thousand euros) (note 31).

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

Impairment testing for cash-generating units containing goodwill

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

Carrying amounts of goodwill allocated to the subsidiaries

Company	Interest 2014	Interest 2013	31 December 2014	EUR '000 31 December 2013
Nordecon AS				
Goodwill*	-	-	8,206	8,206
Subsidiaries				
Nordecon Betoon OÜ	52%	52%	181	181
Kaurits OÜ	66%	66%	2,022	2,022
AS Eston Ehitus	100%	98%	3,767	3,669
Total			**14,176**	**14,078**

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

General assumptions for determining value in use

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

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- The forecast period was 2015-2018 plus the terminal year.
- The present value of the future cash flows was found using the average weighted cost of capital (WACC) as the discount rate. The proportions of debt and equity capital used as weights were based on the capital structures of similar companies (measured at the average market value), which according to the Damodaran database were 56.8% and 43.2% (Nordecon AS, Nordecon Betoon OÜ, AS Eston Ehitus) or 42.9% and 57.1% (Kaurits OÜ) respectively, depending on the field of activity of the CGU.
- The cost of debt was estimated based on the CGUs' actual loan interest rates, which ranged from 2.1% to 6.0%, and the expected rate of return on equity was set at 15%, which was compared against the required rate of return on equity for companies operating in a similar industry in the Damodaran database.
- Changes in subsequent periods' revenues were projected on the basis of the action plans of the CGU for subsequent years (including the budget approved by management for 2015) and an assessment of the market situation in the segment where the CGU operates.
- Changes in subsequent periods' gross margins were projected on the basis of the action plans of the CGU for subsequent years (including the budget approved by management for 2015) and an assessment of the market situation in the segment where the CGU operates.
- Administrative expenses that affect operating cash flow were projected on the basis of the budget approved by management for 2015.
- Changes in working capital investments were projected based on the expected revenue change against the comparative period. The absolute revenue change was used to estimate the portion (5%) that is expected to be needed for raising additional working capital upon revenue growth or to be released upon revenue decline.
- Changes in capital expenditures were projected on the basis of the investment budget approved by management for 2015 and by applying to it growth rates suitable for subsequent years, estimated by reference to projections of the CGU's future activity.

Nordecon AS	Assumptions applied
Forecast period	2015-2018 + terminal year
Discount rate	10%
Revenue change	2015: 20.6%, 2016-2018: compound annual growth rate (CAGR) 3.3%, terminal year: 1%
Gross margin	2015: based on budget, 2016-2018: gradual growth to 8%, terminal year: 8%
Administrative expenses	See general assumptions, 2015-2018: 3- 4% of revenue, terminal year: 4%
Working capital	See general assumptions
Capital expenditures	See general assumptions

Nordecon Betoon OÜ	Assumptions applied
Forecast period	2015-2018 + terminal year
Discount rate	9.7%
Revenue change	2015: -26%, 2016-2018: compound annual growth rate (CAGR) 3.3%, terminal year: 1%
Gross margin	2015: based on budget, 2016-2018: gradual growth to 8%, terminal year: 8%
Administrative expenses	See general assumptions, 2015-2018: 2-3% of revenue, terminal year: 3.5%
Working capital	See general assumptions
Capital expenditures	See general assumptions

Kaurits OÜ	Assumptions applied
Forecast period	2015-2018 + terminal year
Discount rate	7.6%
Revenue change	2015: -5%, 2016-2018: compound annual growth rate (CAGR) 2.6%, terminal year: 1%
Gross margin	2015: based on budget, 2016-2018: gradual growth to 9%, terminal year: 9%
Administrative expenses	See general assumptions, 2015-2018: 3-4% of revenue, terminal year: 4%
Working capital	See general assumptions
Capital expenditures	See general assumptions. 2015-2018 ongoing renewal of machinery fleet

AS Eston Ehitus	Assumptions applied
Forecast period	2015-2018 + terminal year
Discount rate	11.1%
Revenue change	2015: 24%, 2016-2018: compound annual growth rate (CAGR) 9.8%, terminal year: 1%
Gross margin	2015: based on budget, 2016-2018: gradual growth to 8.5%, terminal year: 8%
Administrative expenses	See general assumptions, 2015-2018 approx. 2% of revenue, terminal year: 2.3% (own support functions minimal; a significant share of expenses included in project costs)
Working capital	See general assumptions
Capital expenditures	See general assumptions

Based on the results of impairment testing, goodwill was not written down (2013: goodwill allocated to AS Eston Ehitus was written down by 348 thousand euros, note 32).

Potential impact of changes in estimates

The value in use of a cash-generating unit is compared to the carrying amount of the investment made plus the carrying amount of the goodwill allocated to it. Value in use is an estimate. Therefore, any changes in selected inputs may increase or reduce the value obtained. The Group's management performed a sensitivity analysis that reflected how a change in discount rates would affect the recoverable amount of goodwill. The total value in use of the cash-generating units to which goodwill has been allocated will exceed the carrying amount of the investments and the goodwill allocated to them as long as the rise in the weighted average discount rate (the rate applied in the calculations was 10.1%) does not exceed 8% percentage points, assuming all other variables remain constant.

NOTE 18. Loans and borrowings

Current loans and borrowings

EUR '000	Note	31 December 2014	31 December 2013
Overdraft liabilities		7,464	10,849
Current portion of non-current loans and borrowings, of which:		9,797	9,651
Bank loans		8,328	7,734
Other long-term loans		258	841
Finance lease liabilities	19	1,211	1,076
Short-term bank loans		474	0
Factoring liabilities		2,853	3,375
Total current loans and borrowings		**20,588**	**23,875**

Non-current loans and borrowings

EUR '000	Note	31 December 2014	31 December 2013
Total non-current loans and borrowings		12,942	12,954
Of which current portion		9,797	9,651
Non-current portion, of which:		**3,145**	**3,303**
Bank loans		102	545
Finance lease liabilities	19	3,043	2,758

Details of loans as at 31 December 2014

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

Negotiations with the banks regarding refinancing of the Group's loan commitments will be held from March to May 2015. The decisions that will be made will affect all loan liabilities that mature in the first half of 2015. By the date of release of this report, banks have approved refinancing agreements on liabilities of 4,401 thousand euros.

Details of loans as at 31 December 2013:

EUR '000 Loan type	Base currency	Interest rate	Up to 1 year	1-2 years	3-... years	Total loan	Maturity date
Overdraft	EUR	6M Euribor+3.95%	1,844	0	0	1,844	31 March 2014
Overdraft	EUR	4.0%	3,441	0	0	3,441	30 September 2014
Overdraft	EUR	Bank's base rate +2.7%	4,863	0	0	4,863	31 January 2014
Overdraft	EUR	6M Euribor+2.5%	701	0	0	701	31 May 2014
Investment loan	EUR	5.0%	611	0	0	611	31 March 2104
Investment loan	EUR	4.1%	2,911	0	0	2,911	31 March 2014
Investment loan	EUR	6M Euribor+3.7%	1,850	0	0	1,850	6 June 2014
Investment loan	EUR	3M Euribor+3.7%	1,981	0	0	1,981	6 June 2014
Investment loan	EUR	6M Euribor+2.67%	324	383	0	707	11 January 2015
Investment loan	EUR	6M Euribor+1%	57	109	53	219	18 September 2017
Working capital loan	EUR	5%	841	0	0	841	1 August 2014
Factoring liability	EUR	EONIA+2.5%	3,375	0	0	3,375	30 September 2014
Total loans			**22,799**	**492**	**53**	**23,344**	

NOTE 19. Finance and operating leases

The Group as a lessee

EUR '000	Note	2014	2013
Finance lease liabilities at beginning of year		**3,834**	**3,736**
Addition		1,852	1,768
Principal payments made		-1,432	-1,670
Finance lease liabilities at end of year, of which falling due in:		**4,254**	**3,834**
Not later than 1 year	18	1,211	1,076
Later than 1 year and not later than 5 years	18	3,043	2,758
Base currency EUR		4,254	3,834
Interest rate for EUR-based contracts*		2.0%-5.2%	2.0%-5.2%
Weighted average interest rate		3.25%	3.25%
Interest expense of the period		135	143
Frequency of payments		Monthly	Monthly

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

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

EUR '000	2014			2013		
Payable	Minimum lease rentals*	Interest	Present value of minimum lease rentals	Minimum lease rentals*	Interest	Present value of minimum lease rentals
Not later than 1 year	1,323	112	1,211	1,191	115	1,076
Later than 1 year and not later than 5 years	3,171	128	3,043	2,912	154	2,758
Total	**4,494**	**240**	**4,254**	**4,103**	**269**	**3,834**

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

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Operating lease expenses

Operating lease expenses recognised during the reporting period for:

EUR '000	2014	2013
Cars	661	641
Construction equipment	2,562	2,005
Premises	682	521
IT equipment	247	259
Total operating lease expenses	**4,152**	**3,426**

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

EUR '000		31 December 2014	31 December 2013
Not later than 1 year	Future minimum lease rentals	1,166	1,251
Later than 1 year and not later than 5 years	Future minimum lease rentals	1,661	1,987

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

NOTE 20. Trade payables

EUR '000	Note	31 December 2014	31 December 2013
Trade payables		19,667	21,217
Accrued expenses related to contract work		6,590	4,979
Payables to related parties	38	10	176
Total current trade payables		**26,267**	**26,372**
Trade payables		109	156
Total non-current trade payables		**109**	**156**

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

NOTE 21. Other payables

EUR '000	31 December 2014	31 December 2013
Payables to employees	5,477	5,059
Taxes payable	1,908	2,713
Accrued expenses	110	71
Miscellaneous payables	47	139
Total current other payables	**7,542**	**7,982**
Other payables	96	96
Total non-current other payables	**96**	**96**

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

Accrued expenses include mainly interest accrued on loan liabilities.

Taxes payable

EUR '000	31 December 2014	31 December 2013
Value added tax	575	1,366
Personal income tax	373	385
Social security tax	640	628
Other taxes	320	334
Total taxes payable	**1,908**	**2,713**

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NOTE 22. Deferred income

EUR '000	Note	31 December 2014	31 December 2013
Due to customers for contract work	28	1,746	5,886
Advances received for goods and services		40	216
Total deferred income		**1,786**	**6,102**

NOTE 23. Provisions

EUR '000	31 December 2014	31 December 2013
Current provisions	799	913
Non-current provisions	759	969
Total provisions	**1,558**	**1,882**

Changes in provisions

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

Warranty provisions (EUR '000)	2014	2013
Opening balance	**1,546**	**1,407**
Provisions used and reversed	-579	-614
Provisions recognised	191	753
Closing balance, of which:	**1,158**	**1,546**
Current portion	677	849
Non-current portion	481	697

Other provisions (EUR '000)	2014	2013
Opening balance	**336**	**324**
Provisions used and reversed	161	165
Provisions recognised	-97	-152
Closing balance, of which:	**400**	**336**
Current portion	122	64
Non-current portion	278	272

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

NOTE 24. Equity

Share capital

EUR '000	2014	2013
At 1 January	19,657	19,657
At 31 December	**20,692**	**19,657**

The share capital of Nordecon AS was increased by 1,035 thousand euros by issuing 1,618,755 new shares with no par value. The new shares were issued at a premium of 547 thousand euros. The issue price of the shares was 0.977 euros per share.

Owners of ordinary shares are entitled to dividends as distributed from time to time. Each share carries one vote at the general meetings of Nordecon AS. Share capital consists of 32,375,483 ordinary shares with no par value.

Share premium

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

Capital reserve

The Estonian Commercial Code requires companies to create a capital reserve. Each year at least one twentieth of profit for the year has to be transferred to the capital reserve until the reserve amounts to one tenth of share capital. The capital reserve may be used for covering losses and increasing share capital but not for making distributions to shareholders. At the reporting date, the capital reserve stood at 2,554 thousand euros (31 December 2013: 2,554 thousand euros).

Translation reserve

The translation reserve comprises foreign exchange differences from the translation of the financial statements of foreign subsidiaries whose functional currency differs from the Group's presentation currency. At the reporting date, the translation reserve stood at 771 thousand euros (31 December 2013: -298 thousand euros). The change is attributable to the weakening of the Ukrainian subsidiaries' functional currency against the euro.

Dividends

In 2014, the parent company Nordecon AS made a dividend distribution of 923 thousand euros (2013: no dividend distribution).

NOTE 25. Earnings per share

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

	2014	2013
Profit for the year attributable to owners of the parent (EUR'000)	1,956	4,642
Weighted average number of shares (in thousands)	30,757	30,757
Basic earnings per share (EUR)	0.06	0.15
Diluted earnings per share (EUR)	0.06	0.15

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

NOTE 26. Share-based payments

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

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

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

The share capital of Nordecon AS was increased by 1,035 thousand euros by issuing 1,618,755 new shares with no par value. The new shares were issued at a premium of 547 thousand euros. The issue price of the shares was 0.977 euros per share.

At the grant date, the fair value of the share options was measured using the Bermuda model. The pricing inputs that were taken into account included: the current price of the underlying shares at the measuring date (1 euro), the exercise price of the option (0.977 euros), the expected volatility of the share price (30%), the life of the option (37 months), the risk-free interest rate (0.323%) and the dividends expected on the shares.

NOTE 27. Operating segments

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

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

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

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

Preparation of segment reporting

The prices applied in inter-segment transactions do not differ significantly from market prices. The chief operating decision maker reviews inter-segment transactions separately and analyses their proportion in segment revenue. Respective figures are separately outlined on preparing segment reporting. Information on the proportion of revenue earned on transactions with the largest customer is disclosed in the *Credit risk* section of note 5.

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

2014

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

* Comprises write-down of goodwill by 192 thousand euros (note 17).

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2013

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

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

Adjustments

EUR '000	2014	2013
Depreciation and amortisation for reportable and other segments	-1,743	-1,823
Adjustments	-58	-165
Consolidated depreciation and amortisation	**-1,801**	**-1,988**
Other significant non-cash items for reportable and other segments including asset write-downs	-192	-678
Consolidated other significant non-cash items including asset write-downs	**-192**	**-678**
Capital expenditures for reportable and other segments	2,299	2,196
Adjustments	0	103
Consolidated capital expenditures	**2,299**	**2,299**
Investments in equity-accounted investees	694	566
Adjustments	0	0
Consolidated investments in equity-accounted investees	**694**	**566**

Reconciliation of segment revenues

EUR '000	2014	2013
Total revenues for reportable segments	157,136	170,722
Revenue for other segments	5,784	4,323
Elimination of inter-segment revenues	-2,690	-2,910
Unallocated revenue	1,059	1,516
Total consolidated revenue	**161,289**	**173,651**

Reconciliation of segment profit

EUR '000	2014	2013
Total profit for reportable segments	10,810	11,750
Total profit for other segments	319	475
Elimination of inter-segment profits and losses	-16	-10
Unallocated profits and losses	-1,300	-906
Consolidated gross profit	**9,813**	**11,309**
Unallocated expenses:		
Marketing and distribution expenses	-558	-452
Administrative expenses	-5,656	-4,922
Other operating income and expenses	416	-632
Consolidated operating profit	**4,015**	**5,303**
Finance income	738	668
Finance costs	-2,301	-1,027
Share of profit/loss of equity-accounted investees	85	-170
Consolidated profit before tax	**2,537**	**4,774**

Reconciliation of segment assets

EUR '000	31 December 2014	31 December 2013
Total assets of reportable segments	95,776	102,927
Investments in equity-accounted investees	694	566
Total assets of other segments	3,597	3,355
Inter-segment eliminations	-13,065	-13,595
Unallocated assets	10,456	11,441
Total consolidated assets	**97,458**	**104,694**

Geographical information

Revenue (EUR '000)	2014	2013
Estonia	151,739	164,303
Ukraine	3,197	822
Finland	6,565	8,571
Inter-segment eliminations	-212	-45
Total revenue	**161,289**	**173,651**

Assets based on geographical location* (EUR '000)	2014	2013
Estonia	27,500	27,062
Ukraine	1	11
Total assets	**27,501**	**27,073**

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

NOTE 28. Construction contracts in progress

Financial information on construction contracts in progress at the reporting date

Construction contracts in progress from date of commencement of projects (EUR '000)	31 December 2014	31 December 2013
Contract costs recognised using the stage of completion method	78,389	54,609
Estimated gross profit	3,147	6,308
Contract revenue recognised using the stage of completion method	81,536	60,917
Progress billings	77,962	63,155
Difference between total progress billings and revenue recognised using stage of completion method	**-3,573**	**2,238**
Of which due from customers (note 9)	5,319	3,648
Of which due to customers (note 22)	1,746	5,886

At the reporting date, retentions receivable under construction contracts totalled 858 thousand euros (31 December 2013: 3,541 thousand euros) (note 9).

Potential impact of changes in estimates

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

EUR '000	2014	2013		2014	2013
Change in revenue +5%	7,293	6,709	Change in revenue -5%	-21,635	-20,887
Change in gross profit	486	655	Change in gross profit	-1,786	-1,950

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NOTE 29. Government grants

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

Grants related to income (for covering operating expenses) EUR '000	2014	2013
Deferred income from government grants at 1 January	0	0
Received from EU structural funds	212	323
Recognised as income from government grants	212	323
Deferred income from government grants at 31 December	0	0

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

NOTE 30. Cost of sales

EUR '000	2014	2013
Cost of materials, goods and services	132,869	142,279
Personnel expenses	16,695	18,026
Depreciation and amortisation expense (notes 16 and 17)	1,762	1,818
Other expenses	150	219
Total cost of sales	**151,476**	**162,342**

During the year, the Group employed, on average, 732 people (2013: 757 people).

NOTE 31. Administrative expenses

EUR '000	2014	2013
Cost of materials, goods and services	2,093	1,994
Personnel expenses	3,404	2,638
Depreciation and amortisation expense (notes 16 and 17)	39	170
Other expenses	120	120
Total administrative expenses	**5,656**	**4,922**

NOTE 32. Other operating income and expenses

Other operating income

EUR '000	Note	2014	2013
Gain on sale of property, plant and equipment		256	272
Goodwill	7	414	0
Foreign exchange gain		0	3
Other income		122	189
Total other operating income		**792**	**464**

Other operating expenses

EUR '000	Note	2014	2013
Loss on sale and write-off of property, plant and equipment		7	14
Write-down of properties acquired for development and investment properties	11	0	330
Write-down of goodwill	17	192	348
Net loss on recognition and reversal of impairment losses on receivables	35	14	305
Foreign exchange loss		0	1
Other expenses		163	98
Total other operating expenses		**376**	**1,096**

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NOTE 33. Finance income and costs

Finance income

EUR '000	2014	2013
Foreign exchange gain	96	37
Interest income on loans provided	642	618
Other finance income	0	13
Total finance income	**738**	**668**

Interest income on loans provided includes interest income of 613 thousand euros (2013: 618 thousand euros) on loans provided to related parties (note 38).

Finance costs

EUR '000	2014	2013
Interest expense	1,001	1,055
Foreign exchange loss	1,299	144
Other finance costs	1	-172
Total finance costs	**2,301**	**1,027**

NOTE 34. Income tax expense

EUR '000	%	2014	%	2013
Profit for the year		2,298		4,639
Income tax expense		-239		-135
Profit before tax		**2,537**		**4,774**
Income tax using the tax rate of the parent company	0%	0	0%	0
Income tax on dividends distributed by Estonian Group entities	-9.38%	-238	-1.60%	-78
Income tax in foreign jurisdictions	-0.04%	-1	-1.20%	-57
Total income tax expense	**-9.42%**	**-239**	**-2.80%**	**-135**

Under the Estonian Income Tax Act, the earnings of companies operating in Estonia are not subject to income tax. Corporate income tax is levied on dividends distributed by companies registered in Estonia. In 2014, the amount of tax payable was calculated as 21/79 of the net distribution. From 2015, the amount of tax payable is calculated as 20/80 of the net distribution.

In 2014, the Group's Estonian subsidiaries paid a net dividend of 240 thousand euros, which gave rise to income tax expense of 61 thousand euros (2013: 293 thousand euros and 78 thousand euros respectively). The share of dividends paid to non-controlling interests amounted to 81 thousand euros (2013: 121 thousand euros).

NOTE 35. Financial instruments and financial risk management

Credit risk

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

EUR '000	Note	2014	2013
Cash and cash equivalents	8	8,802	12,575
Trade receivables	9	13,435	17,255
Retentions receivable	9	858	3,541
Receivables from related parties	9	2	138
Loans to related parties	9	12,884	12,053
Other receivables	9	1,948	2,111
Due from customers for contract work	9	5,319	3,648
Total		**43,248**	**51,321**

Financial assets by geographical origin at the reporting date

EUR '000	2014	2013
Estonia	41,734	49,286
Ukraine	115	431
Lithuania	19	52
Finland	1,380	1,552
Total	**43,248**	**51,321**

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

	31 December 2014		31 December 2013	
EUR '000	Trade receivables	Impairment allowance	Trade receivables	Impairment allowance
Not past due	11,684	0	14,238	0
0-30 days past due	1,099	0	766	0
31-180 days past due	203	0	155	0
Over 180 days past due *	475	-26	2,151	-55
Total	**13,461**	**-26**	**17,310**	**-55**

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

Changes in impairment allowance for receivables

EUR '000	2014	2013
Impairment allowance at 1 January	-55	-77
Impaired items recovered during the year	10	50
Impairments recognised during the year	-24	-355
Items written off during the year	43	327
Impairment allowance at 31 December	**-26**	**-55**

In 2014, impairments recognised for receivables and changes in estimates of the recoverability of receivables gave rise to a net loss of 14 thousand euros (2013: 305 thousand euros) (note 32).

During the year, receivables of 43 thousand euros that had been written down in previous periods were considered irrecoverable (2013: 327 thousand euros).

Liquidity risk

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

EUR '000					31 December 2014
Financial liability*	Carrying amount	Contractual cash flows	Less than 1 year	1-2 years	More than 3 years
Overdraft liabilities (note 18)	7,464	7,698	7,698	0	0
Bank and other loans (note 18)	9,162	9,341	9,237	104	0
Finance lease liabilities (note 19)	4,254	4,494	1,323	2,548	623
Factoring liabilities (note 18)	2,853	2,864	2,864	0	0
Trade payables (note 20)	26,366	26,366	26,366	0	0
Other payables (note 21)	5,730	5,730	5,634	96	0
Total	**55,829**	**56,493**	**53,122**	**2,748**	**623**

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

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EUR '000					31 December 2013
Financial liability*	**Carrying amount**	**Contractual cash flows**	**Less than 1 year**	**1-2 years**	**More than 3 years**
Overdraft liabilities (note 18)	10,849	10,996	10,996	0	0
Bank and other loans (note 18)	9,120	9,272	8,723	505	44
Finance lease liabilities (note 19)	3,834	4,104	1,192	1,865	1,047
Factoring liabilities (note 18)	3,375	3,391	3,391	0	0
Trade payables (note 20)	26,528	26,528	26,372	156	0
Other payables (note 21)	5,365	5,365	5,269	96	0
Total	**59,071**	**59,656**	**55,943**	**2,622**	**1,091**

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

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

- an overdraft facility of 145 thousand euros with a fixed interest rate of 4.00% per year;
- an overdraft facility of 8 thousand euros with an interest rate of the bank's base rate plus 2.7% per year;
- an overdraft facility of 180 thousand euros with an interest rate of 6M Euribor plus 2.5% per year.

In addition to overdraft facilities, the Group had a factoring arrangement with a limit of 7,153 thousand euros designed for speeding up recovery of receivables with long settlement terms. At the year-end, 4,301 thousand euros of the limit was not in use.

Guarantee commitments accounted for off the statement of financial position

Banks have provided the Group with construction-related guarantees of 24,927 thousand euros (2013: 21,253 thousand euros). According to management's estimates, at the reporting date the risk that the guarantees might be called upon was low. In the period 2007-2012 no bank guarantees were called upon due to non-performance of obligations related to construction operations. In 2014, one letter of guarantee was enforced in an amount of 25 thousand euros, which was repaid to the Group in full after the performance of warranty work (2013: one letter of guarantee was enforced in an amount of 154 thousand euros, which was repaid to the Group in full).

Refinancing of current financial liabilities in 2015

Based on the financing plan in place, the Group believes that in 2015 loan liabilities of 14,767 thousand euros, classified as current items as at the reporting date, can be refinanced and that 13,693 thousand euros of the amount can be refinanced for a period exceeding twelve months (short-term overdrafts of 7,464 thousand euros and long-term loans of 6,229 thousand euros).

Currency risk

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

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

'000	EUR	LTL	2013 UAH
Cash and cash equivalents	12,524	148	91
Current receivables	27,644	33	4,952
Non-current receivables	10,645	0	0
Total	**50,813**	**181**	**5,043**
Current liabilities	64,880	2	4,033
Non-current liabilities	4,524	0	0
Total	**69,404**	**2**	**4,033**
Net exposure	**-18,591**	**179**	**1,010**

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

	Date	Lithuanian litas (LTL)	Ukrainian hryvnia (UAH)
1 euro (EUR)	31 December 2014	3.4528	19.2329
1 euro (EUR)	31 December 2013	3.4528	11.0415

Potential impact of changes in estimates

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

EUR '000	31 December 2014	31 December 2013
Strengthening of euro by 10%	-5	-13
Weakening of euro by 10%	6	16

Interest rate risk

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

EUR '000	2014	2013
Fixed rate financial instruments		
Financial assets (loans provided to related parties and legal persons) (notes 9 and 38)	12,884	12,053
Financial liabilities (note 18)	5,158	7,804
Floating rate financial instruments		
Financial assets (cash and cash equivalents) (note 8)	8,802	12,575
Financial liabilities (including finance lease liabilities) (notes 18 and 19)	18,575	19,374
Net exposure	**-9,773**	**-6,799**

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

	31 December 2014	31 December 2013
3 month Euribor	0.078%	0.287%
6 month Euribor	0.171%	0.389%
EONIA	0.144%	0.446%
Bank's base rate	0.630%	0.853%

Potential impact of changes in estimates

An increase or a decrease of 100 basis points in the variable component of the interest rate at the reporting date would increase or reduce subsequent periods' interest expense on interest-bearing financial liabilities by 172 thousand euros (2013: 122 thousand euros). The analysis assumes that all other variables remain constant.

Fair value

Fair values and carrying amounts of the Group's financial instruments at the reporting date

EUR '000	2014 Carrying amount	2014 Fair value	2013 Carrying amount	2013 Fair value
Cash and cash equivalents (note 8)	8,802	8,802	12,575	12,575
Trade receivables (note 9)	13,435	13,435	17,255	17,255
Retentions receivable (note 9)	858	858	3,541	3,541
Receivables from related parties (notes 9, 38)	2	2	138	138
Loans to related parties (notes 9, 38)	12,884	12,895	12,053	12,062
Other receivables (note 9)	1,948	1,948	2,111	2,111
Overdraft liabilities (note 18)	-7,464	-7,464	-10,849	-10,849
Bank and other loans (note 18)	-9,162	-9,183	-9,120	-9,152
Finance lease liabilities (notes 18, 19)	-4,254	-4,254	-3,834	-3,834
Factoring liabilities (note 18)	-2,853	-2,853	-3,375	-3,375
Trade payables (note 20)	-26,366	-26,366	-26,353	-26,353
Payables to related parties (notes 20, 38)	-10	-10	-176	-176
Other payables (note 21)	-5,730	-5,730	-5,365	-5,365
Unrealised loss		**-10**		**-23**

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

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

Average market interest rate	2014	2013
Loans provided	6%	6%
Loans received*	2.77%	3.12%

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

NOTE 36. Contingent liabilities

Contingent income tax liability

EUR '000	31 December 2014	31 December 2013
Retained earnings	11,714	10,681
Contingent income tax liability	-2,343	-2,243
Amount that could be distributed as the net dividend	9,371	8,438

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

Guarantees and surety commitments

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

Bank guarantees provided

At the reporting date, bank guarantees provided to customers for securing Group entities' commitments under construction contracts totalled 24,927 thousand euros (31 December 2013: 21,253 thousand euros).

Surety commitments

Due to the expiry of underlying obligations, at the reporting date the Group had no surety commitments in respect of the obligations of its associates and non-Group third parties. Surety bonds issued by the parent to secure the subsidiaries' operating lease commitments not recognised in the statement of financial position totalled 479 thousand euros (31 December 2013: 550 thousand euros).

NOTE 37. Assets pledged as collateral

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

Commercial pledges

At the reporting date, the parent and the subsidiaries had pledged their movable property under commercial pledges to the extent of 50,002 thousand euros (31 December 2013: 50,502 thousand euros).

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

Mortgages

At the reporting date, the total value of immovable property (plots and buildings) mortgaged by the Group's parent and subsidiaries was 33,364 thousand euros (31 December 2013: 31,123 thousand euros). Assets of the following classes have been mortgaged:

Line item in the statement of financial position (EUR '000)	2014	2013
Inventories (note 11)	13,485	12,719
Investment property (note 15)	639	639
Property, plant and equipment (land and buildings) (note 16)	767	767
Mortgages that cannot be linked to a specific asset class*	18,473	16,998
Total	**33,364**	**31,123**

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

Share pledges

The Group has secured its loan liabilities by pledging its shares in the following subsidiaries: AS Eston Ehitus (100%), Järva Teed AS (100%) and Hiiu Teed OÜ (100%) (2013: 98%, 100% and 100% respectively).

NOTE 38. Transactions with related parties

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

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

The Group's purchase and sales transactions with related parties

EUR '000		2014		2013
Counterparty	**Purchases**	**Sales**	**Purchases**	**Sales**
AS Nordic Contractors	350	0	319	0
Companies of AS Nordic Contractors group	3	7	6	691
Equity-accounted investees	1,505	22	1,170	26
Companies related to members of the council	294	0	53	254
Total	**2,152**	**29**	**1,548**	**971**

EUR '000		2014		2013
Nature of transactions	**Purchases**	**Sales**	**Purchases**	**Sales**
Construction services	1,820	0	1,170	685
Lease and other services	332	29	378	286
Total	**2,152**	**29**	**1,548**	**971**

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

EUR '000	31 December 2014 Receivables	31 December 2014 Liabilities	31 December 2013 Receivables	31 December 2013 Liabilities
AS Nordic Contractors	1	9	0	9
Companies of AS Nordic Contractors group – receivables	0	0	1	0
Companies of AS Nordic Contractors group – loans and interest	256	0	0	0
Associates – receivables and payables	1	1	137	167
Associates – loans and interest	10,829	0	10,385	0
Joint venture – loans and interest	1,799	0	1,668	0
Total	**12,886**	**10**	**12,191**	**176**

Loan principal and accrued interest receivable from related parties

EUR '000	Related party	Interest rate	Currency	2014 Loan	2014 Of which interest	2013 Loan	2013 Of which interest
Kastani Kinnisvara OÜ	Associate	10.0%	EUR	61	15	118	1
Technopolis-2 TOV	Associate	6.5%	EUR	1,243	494	1,177	445
V.I. Center TOV	Associate	6.0%	EUR	9,525	2,397	9,090	1,970
Unigate OÜ	Joint venture	8.0%	EUR	1,799	384	1,668	269
Nordic Contractors Finance &Leasing		5.0%	EUR	256	6	0	0
Total				**12,884**	**3,296**	**12,053**	**2,685**
Of which current portion (note 9)				2,116	406	1,786	270
Of which non-current portion (note 9)				10,768	2,890	10,267	2,415

In the period, the Group gave a company of AS Nordic Contractors group a loan of 250 thousand euros (2013: nil euros). Interest accrued on loans provided comprised interest receivable from associates of 490 thousand euros (2013: 505 thousand euros), from the joint venture of 114 thousand euros (2013: 113 thousand euros) and the company of AS Nordic Contractors group of 9 thousand euros (2013: nil euros). Loans to related parties have no collateral.

Other transactions with related parties

In the reporting period, shareholders restored the negative equity of Kastani Kinnisvara OÜ through monetary contributions. The Group paid 44 thousand euros (note 12).

Remuneration of the council and the board

In 2014, the service fees of the members of the council of Nordecon AS amounted to 141 thousand euros and associated social security charges totalled 47 thousand euros (2013: 141 thousand euros and 47 thousand euros respectively). Expenses on the provision for council members' performance-related pay, made based on the Group's performance indicators, amounted to 113 thousand euros and the provision for associated social security charges amounted 37 thousand euros (2013: 14 thousand euros and 4 thousand euros respectively).

In 2014, the service fees of the members of the board of Nordecon AS amounted to 262 thousand euros and associated social security charges totalled 87 thousand euros (2013: 195 thousand euros and 65 thousand euros respectively). Expenses on the provision for board members' performance-related pay, made based on the Group's performance indicators, amounted to 387 thousand euros and the provision for associated social security charges amounted 128 thousand euros (2013: 51 thousand euros and 17 thousand euros respectively).

NOTE 39. Events after the reporting period

Changes in the Group's structure after the reporting period

SweNCN OÜ

On 6 February 2015 (the date of signature of the entity's memorandum of association), Nordecon AS acquired a 60% stake in SweNCN OÜ (an entity under establishment). The remaining 40% stake was acquired by

Luksusjaht AS, which has a 9.85% interest in Nordecon AS. The sole owner of Luksusjaht AS, Sven Lennart Alpstål, has a 0.09% interest in Nordecon AS.

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

Embach Ehitus OÜ

On 3 February 2015 (the date of signature of the entity's memorandum of association), Nordecon AS acquired a 46% stake in Embach Ehitus OÜ (an entity under establishment). According to plan, Embach Ehitus OÜ is going to operate as a contractor in the building construction segment. It will focus on offering services to private sector customers that are interested in carrying out construction and development projects in southern Estonia. At the date of establishment, the share capital of Embach Ehitus OÜ amounted to 2,500 euros. Nordecon AS made the investment to be able to respond flexibly to changes in the construction market and to move closer to prospective customers.

V.I. Center TOV

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

NOTE 40. Parent company's primary financial statements

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

Statement of financial position

EUR '000	31 December 2014	31 December 2013
ASSETS		
Current assets		
Cash and cash equivalents	6,428	9,953
Trade and other receivables	20,305	25,102
Prepayments	680	1,007
Inventories	15,044	14,497
Total current assets	**42,457**	**50,559**
Non-current assets		
Investments in subsidiaries	11,854	11,056
Investments in associates and joint ventures	40	155
Investment property	327	327
Trade and other receivables	10,540	10,024
Property, plant and equipment	5,058	4,973
Intangible assets	8,249	8,213
Total non-current	**36,068**	**34,748**
TOTAL ASSETS	**78,525**	**85,307**
LIABILITIES		
Current liabilities		
Loans and borrowings	14,858	17,982
Trade payables	19,951	17,996
Taxes payable	980	1,513
Other payables	9,440	10,463
Deferred income	1,270	5,481
Provisions	477	421
Total current liabilities	**46,976**	**53,856**
Non-current liabilities		
Loans and borrowings	1,761	2,150
Other payables	0	0
Provisions	630	851
Total non-current liabilities	**2,391**	**3,001**
TOTAL LIABILITIES	**49,367**	**56,857**
EQUITY		
Share capital	20,692	19,657
Own (treasury) shares	-1,582	0
Share premium*	1,116	569
Statutory capital reserve	2,534	2,534
Retained earnings	6,398	5,690
TOTAL EQUITY	**29,158**	**28,450**
TOTAL LIABILITIES AND EQUITY	**78,525**	**85,307**

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

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Statement of comprehensive income

EUR '000	2014	2013
Revenue	100,163	131,155
Cost of sales	-93,806	-122,757
Gross profit	**6,357**	**8,398**
Marketing and distribution expenses	-487	-375
Administrative expenses	-4,021	-3,252
Other operating income	158	116
Other operating expenses	-118	-253
Operating profit	**1,889**	**4,634**
Finance income	926	931
Finance costs	-1,008	-1,077
Net finance costs	**-82**	**-146**
Profit before income tax	**1,807**	**4,488**
Income tax expense	**-177**	**0**
Profit for the year	**1,630**	**4,488**
Total comprehensive income for the year	**1,630**	**4,488**

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Statement of cash flows

EUR '000	2014	2013
Cash flows from operating activities		
Cash receipts from customers[6]	121,197	153,688
Cash paid to suppliers[7]	-104,677	-137,763
Cash paid to and for employees	-9,921	-9,485
VAT paid	-2,478	-3,455
Income tax paid	-177	0
Net cash from operating activities	**3,944**	**2,985**
Cash flows from investing activities		
Paid on acquisition of non-current assets	-306	-386
Proceeds from sale of non-current assets	0	66
Capital contributions to subsidiaries and joint ventures	-736	-350
Loans provided	-1,040	-739
Repayment of loans provided	0	335
Interest received	2	401
Dividends received	33	170
Net cash used in investing activities	**-2,047**	**-503**
Cash flows from financing activities		
Proceeds from loans received	6,346	2,997
Repayment of loans received	-9,393	-2,738
Payment of finance lease principal	-735	-817
Interest paid	-549	-659
Dividends paid	-922	0
Other payments made	-169	0
Net cash used in financing activities	**-5,422**	**-1,217**
Net cash flow	**-3,525**	**1,265**
Cash and cash equivalents at beginning of year	9,953	8,688
Decrease/increase in cash and cash equivalents	-3,525	1,265
Cash and cash equivalents at end of year	**6,428**	**9,953**

[6] Line item Cash receipts from customers includes VAT paid by customers.

[7] Line item *Cash paid to suppliers* includes VAT paid.

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KPMG, Tallinn

Statement of changes in equity

EUR '000	Share capital	Own shares	Share premium	Statutory capital reserve	Retained earnings	Total
Balance at 31 December 2012	**19,657**	**0**	**569**	**2,534**	**1,202**	**23,962**
Profit for the year	0	0	0	0	4,488	4,488
Balance at 31 December 2013	**19,657**	**0**	**569**	**2,534**	**5,690**	**28,450**
Carrying amount of interests under control and significant influence	-		-	-	-	-11,211
Value of interests under control and significant influence under the equity method	-		-	-	-	7,661
Adjusted unconsolidated equity at 31 December 2013	-		-	-	-	**24,900**
Balance at 31 December 2013	**19,657**	**0**	**569**	**2,534**	**5,690**	**28,450**
Increase of share capital	1,035	-1,582	547	0	0	0
Profit for the year	0	0	0	0	1,630	1,630
Dividend distribution	0	0	0	0	-922	-922
Balance at 31 December 2014	**20,692**	**-1,582**	**1,116**	**2,534**	**6,398**	**29,158**
Carrying amount of interests under control and significant influence	-		-	-	-	-11,894
Value of interests under control and significant influence under the equity method	-		-	-	-	9,026
Adjusted unconsolidated equity at 31 December 2014	-		-	-	-	**26,290**

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Statements and signatures of the board and the council

Statement by the board

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

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

Jaano Vink
Chairman of the Board
21 April 2015

Avo Ambur
Member of the Board
21 April 2015

Erkki Suurorg
Member of the Board
21 April 2015

Statement by the Council

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

Toomas Luman
Chairman of the Council
21 April 2015

Alar Kroodo
Vice-chairman of the Council
21 April 2015

Andri Hõbemägi
Member of the Council
21 April 2015

Tiina Mõis
Member of the Council
21 April 2015

Meelis Milder
Member of the Council
21 April 2015

Ain Tromp
Member of the Council
21 April 2015

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INDEPENDENT AUDITORS' REPORT

To the shareholders of Nordecon AS

We have audited the accompanying consolidated financial statements of Nordecon AS, which comprise the consolidated statement of financial position as at 31 December 2014, the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information, as set out on pages 38 to 93.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Nordecon AS as at 31 December 2014, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Emphasis of Matter

Without qualifying our opinion, we draw attention to note 5 to the consolidated financial statements that explains the effect on the group of the events in Ukraine that began in November 2013 and escalated during 2014. According to the assessment of the group's management, the deterioration in the political and economic environment, resulting from differences between Ukraine and Russia, has increased Ukraine's country risk for the group. The above factors have, to a greater or lesser extent, an adverse impact on the construction and real estate markets as well as the value of financial instruments related to Ukraine. For the group, the negative impact is somewhat alleviated by the fact that its Ukrainian business operations are concentrated in and around Kiev. Having taken into account the factors described above, at the end of 2013 the group reclassified loan receivables of 10,267 thousand euros connected with its Ukrainian operations, which were previously classified as current items, to non-current assets. In 2014, the amount grew by loan and interest receivables of 501 thousand euros. Accordingly, at 31 December 2014 loan and interest receivables from the group's Ukrainian associates totalled 10,768 thousand euros.

Tallinn, 21 April 2015

Andres Root
Certified Public Accountant no. 9

KPMG Baltics OÜ
Audit firm activity licence no. 17

Profit allocation proposal

Distributable profit of Nordecon AS:

	EUR '000
Retained earnings of prior years	9,758
Profit for 2014	1,956
Total distributable profit at 31 December 2014	**11,714**

The board makes the following proposals:

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

Jaano Vink	Chairman of the Board	21 April 2015
Avo Ambur	Member of the Board	21 April 2015
Erkki Suurorg	Member of the Board	21 April 2015