



Group annual report 2021





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Business name	Nordecon AS
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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 2021 – 31 December 2021
Council	Toomas Luman (chairman of the council), Andri Hõbemägi, Vello Kahro, Sandor Liive, Andre Luman
Board	Gerd Müller (chairman of the board), Priit Luman, Maret Tambek
Auditor	KPMG Baltics OÜ

Company's consolidated financial statements in pdf-format without European Single Electronic Format (ESEF) markups. The original document is submitted in machine-readable .xhtml format to the Nasdaq Tallinn Stock Exchange and digitally signed (Link: <https://nasdaqbaltic.com/>)

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Nordecon group at a glance

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

For years, our business 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. Our core business is supported by road maintenance, concrete works and other services that provide added value, improve our operating efficiency and help manage risks.

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

Besides Estonia, group entities operate in Sweden, Finland and Ukraine.

Nordecon AS is a member of the Estonian Association of Construction Entrepreneurs and the Estonian Chamber of Commerce and Industry and holds international quality management certificate ISO 9001 and international environmental management certificate ISO 14001.

Nordecon AS's shares have been listed on the Nasdaq 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 support employee development through needs-based training and career opportunities consistent with their experience. We value our people and provide them with a modern work environment that encourages creativity and a motivation system that fosters initiative.

Key figures for 2021

€289m Revenue (2020: €296m)	(2.5)% Revenue change, year on year (2020: 26.5%)	€267m Order book at the year-end (2020: €216m)
€315m Value of new contracts signed (2020: €237m)	114 Projects delivered to customers (2020: 136)	685 Employees (2020: 708)
14 / 0 Accidents / Fatal injuries at work (incl. subcontractors) (2020: 19 / 0)	0 Environmental pollution, discrimination and corruption incidents (2020: 0)	€0.2m Donations to community projects and charities (2020: €0.2m)

Awards and recognition

- **Construction Project of the Year 2021.** In the category of buildings, the award given by the Estonian Association of Architectural and Consulting Engineering Companies went to Ajamaja, an office building in the Rotermann Quarter in Tallinn. Nordecon AS was the general design contractor. The three nominees in the category of buildings also included Kindluse School, built by Nordecon AS, and the nominees in the category of infrastructure included the Sillamäe seafront promenade, built by Nordecon AS and Kaurits OÜ.
- **Builder of the Year 2021.** Ahti Kala from the group's subsidiary Embach Ehitus OÜ won the Builder of the Year competition organised by the Estonian Association of Construction Entrepreneurs for outstanding work on the construction of a family health centre and a multi-storey car park in Tartu.
- **Young Civil Engineer of the Year 2021.** Martin Talvik, Nordecon AS's works manager on the Ajamaja project won the Young Civil Engineer of the Year title awarded by the Estonian Association of Civil Engineers. The three nominees for the award also included Nordecon AS's site manager Henry Kõomägi.
- **Wood Building of the Year 2021.** The finalists for the award given by the Estonian Forest and Wood Industries Association included the Saaremaa Upper Secondary School and Ehituse Mäemaja, a study and research building of Tallinn University of Technology, both built by Nordecon AS. The Saaremaa Upper Secondary School also received the Raitwood Façade Prize and a Special Prize from the readers of the website Delfi Moodne Kodu and was a finalist for the Arcwood Special Award for Use of Glued Laminated Timber, which went to Ehituse Mäemaja. The Kohtla-Järve WIRU sports centre, built by Nordecon AS, received a special mention from the jury.
- **Estonian Association of Interior Architects Award of the Year 2021.** The interior architecture solution of the Ehituse Mäemaja study and research building of Tallinn University of Technology received one of the three annual awards given by the Estonian Association of Interior Architects.
- **Concrete Building of the Year 2020.** The study and accommodation building of the Estonian Academy of Security Sciences Learning Centre in Narva and the University of Tartu Narva College built by Nordecon AS won a Special Award in the competition organised by the Estonian Concrete Association. The winners were announced in July 2021. A special award given by the Ehitaja magazine went to Sillamäe City Government for commissioning the Sillamäe seafront promenade. The promenade was built by Nordecon AS and Kaurits OÜ.
- **Deed of the Year 2021.** The three nominees for the award given by the Digital Construction Cluster included excellent cooperation between Nordecon AS and the producer of CLT elements in the application of digital processes in the construction of the Saaremaa Upper Secondary School.
- **Attractive Employer of the Year 2021.** Engineering students rated Nordecon AS as the second most attractive employer in Estonia.
- **Best Asphalt Paving Contractor.** The Road Management Division of the Transport Administration recognised Tariston AS for its efforts in improving asphalt pavement quality in 2021.
- **Ministry of Defence Gold Badge.** Nordecon AS's project managers Priit Murmann and Lauri Kitsing were recognised for their long-term constructive contribution to defence construction projects.

Letter from chairman of the council

We are living in highly uncertain times. It even seems as if uncertainty, like energy, is governed by the law of conservation – it cannot be created or destroyed, it is constant and can only be transferred or transformed from one form to another. It is no longer relevant how long it has lasted – whether it became a new reality which regularly and forcefully changes our lives in connection with the economic crisis that hit us 14 years ago, the rise of populism that emerged seven years ago, the global health crisis that broke out two years ago, or the security crisis that was sparked by the military aggression against Ukraine this year. Uncertainty has been with us for a long time and has always reached every person and every business.

In spring 2021 we still thought our main challenge was preparing wisely for a decline in business volumes because both public and private demand had been shrinking and labour shortage had been increasing in the construction market through autumn 2020. In fact, however, the economy saw an unprecedented and exceptionally broad-based growth in money supply in 2021. There was a surge in demand for the construction service as well as practically everything. Soaring demand caused supply disruptions, which triggered an uptrend in commodity prices. This, in turn, inflated consumer prices and began to fuel wage growth.

Nordecon also generated almost record revenue. Efficiently? Yes. Profitably? No, because business risks taken in a very uncertain environment – and business risk taking is part of the day-to-day operation of every business, particularly in an industry where the mitigation of price risk has been left to the private sector – can all realise in one direction.

Looking forward, it is clear that there is no business leader who has the slightest idea what they will say next spring when they sum up their company's operations in 2022. We can all only strive to be the best leaders for ourselves and our company, division, department or project, to focus on the principal risks, to make the best use of available resources and to create an environment that supports efficiency. We have been building Nordecon for a long time and have made every effort to make sure that our support functions assist out frontline staff in the best possible manner. We did it last year and we will continue doing it in the future.

Toomas Luman

Chairman of the Council



Group chief executive's letter

The year 2021 was a period of unusually rapid change for most industries. In the construction sector, particularly in building construction, many plans which had been postponed in 2020 due to COVID-19 were launched at an accelerated pace. Demand surged across Europe, affecting the availability and prices of building materials. Some product groups such as steel, wood and oil-based products saw their fastest ever price gain. While the boom raised construction companies' turnovers to record heights, it also put their profitability under strong pressure.

In terms of business volumes, Nordecon is the largest player in the Estonian construction market. Therefore, rapid market changes had a direct impact on our operations and results. Our engineers led the performance and completion of several large-scale and complex projects, which would require very precise and systemic planning and management even in ordinary circumstances. Hikes in input prices and lower than usual availability of various materials affected our originally agreed construction schedules and undermined our operating margins. A complicated market situation compelled us to make additional efforts in the development and implementation of digital solutions. We see more precise process management as the key to increasing a general contractor's efficiency.

Overcoming the price shock in the construction market was challenging for both of our main operating segments. Although the economic environment was exceptionally complicated for a construction service provider, we earned an operating profit in Estonia, which is our home market. All of the reported loss is attributable to one-off losses incurred in the Swedish market.

The year 2022 began with unexpected news of a war in Ukraine, which is going to cause market strain but the extent of the effects of the war can only be assessed in time. Markets have responded to the war with an upswing in prices because many supply chains involving Russia and Ukraine have been severed. The price of construction service will keep rising but it is not yet clear how this will affect demand, which in the second half of 2021 was the past decade's highest. Uncertainties in the economy will remain elevated.

One of the cornerstones of Nordecon's strategy is to offer a broad range of services, i.e. to be represented in most construction segments in order to deliver long-term and balanced growth. Our order book for 2022 is strong, enabling us to develop sustainably and to move on to meet our long-term goals.

I thank all our employees for their contribution and commitment to the development of the group, all our business partners for working with us in creating a better living environment, and all our shareholders for placing their trust in Nordecon.

Gerd Müller

Chairman of the Board



Directors' report

Strategic agenda for 2019-2022

The group's strategic business agenda and targets for the period 2019-2022

Business lines and markets

- The group will grow, mostly organically, with a focus on a more efficient use of its existing resources.
- In Estonia, we will operate, as a market leader, in both the building and infrastructure construction segments.
- In Sweden, we will focus on general contracting in Stockholm and the surrounding area.
- In Finland, we will focus on general contracting and concrete works in Helsinki and the surrounding area.
- In Ukraine, we will focus on general contracting and concrete works, primarily in Kiev and the surrounding area.

Activities for implementing the strategy

- Improving profitability through more precise planning of our design and construction operations.
- Increasing our design and digitalisation capabilities.
- Simplifying and automating work and decision-making processes.
- Monitoring the balance between the contract portfolios of different business segments.
- Valuing balanced teamwork where youthful energy and drive complement long-term experience.
- Noticing and recognising each employee's individual contribution and initiative.

Financial targets

- Revenue will grow by at least 10% per year.
- Foreign markets' contribution will increase to 20% of revenue.
- Real estate development revenue will grow to at least 10% of revenue earned in Estonia.
- Operating margin for the year will be consistently above 3%.
- Operating profit per employee will increase to at least €10 thousand per year.
- We will, on average, distribute at least 30% of profit for the year as dividends.

Social responsibility

An organisation's social responsibility is reflected in the decisions made by its members. The engineering ethics choices and decisions made by our employees on a daily basis provide the foundation which enables the organisation as a whole to contribute to creating effective, efficient and sustainable solutions.

We are aware that society increasingly expects companies to invest more in responsible corporate governance and to improve the environmental and social impacts of their activities. In addition to the public sector, the private sector has started to pay more attention to those matters. This is a broad-based trend and we have to improve our capacity to meet our stakeholders' expectations.

Nordecon's corporate social responsibility is underpinned by legal and regulatory compliance: we observe all applicable laws and regulations and uphold honest contractual relations. However, we feel that it is our duty as a public company to exceed requirements. This creates an opportunity to contribute more actively to the development of the construction sector and to set a good example to other market players.

Nordecon wishes to be an industry leader and to promote important changes in the construction industry which have a positive impact on society: sustainability, efficiency, digitalisation and climate goals, as well as transparency, collaboration and openness.

In the near term, we are planning to invest in responsible construction site management with a particular focus on safety, efficient work arrangement, communication with stakeholders, sustainability and environmental awareness.

Based on an internal analysis and the mapping of external stakeholder expectations, we have identified our role and responsibilities in society as follows:

- Making a positive contribution to the development of society by creating jobs, paying taxes, buying goods and services, delivering capital growth for investors and supporting social initiatives
- Operating openly, honestly, ethically and transparently, which is a critical factor in winning the trust of our business partners and managing large construction projects as well as a way for a listed company to improve business culture
- Developing and maintaining good customer relations by collaborating with customers and business partners in an open and professional manner, offering our expertise and advice, and seeking the best available solutions for construction projects
- Seeking continuously more efficient operating and engineering solutions by tapping into innovation and improving our technological capabilities and management competencies
- Building safe high-quality buildings and infrastructure assets, while ensuring efficiency in an environment where prices are under pressure because customers expect good results quickly and at a favourable price even though solutions are becoming increasingly more sophisticated
- Building sustainably and constantly improving our ability to carry out projects that meet the customers' highest expectations regarding environmentally friendly buildings
- Contributing to the creation of tastefully and comprehensively designed buildings and public space by participating, where possible, in the development of the architectural solution and the selection of materials alongside the customer and the architects and designers
- Creating a safe and motivating work environment for employees and encouraging employee development in order to build qualified and skilled teams that have a common understanding of smooth workflows
- Supporting the education of engineers and construction specialists to promote the engineering profession, alleviate the shortage of qualified and skilled labour and strengthen the group's image as a well-managed employer that offers employees an opportunity to work on ambitious projects.

Market trends

In the year under review, a substantial share of Nordecon's operations was carried out in Estonia and developments in the domestic market had the strongest impact on the group's performance.

Estonian construction market in 2021

In 2021, Estonian construction companies' total output (construction volume) grew by 9% while output in the Estonian market grew by 10%. According to preliminary data from Statistics Estonia, Estonian construction companies' total output in Estonia and abroad amounted to €3.6 billion, the figure comprising building construction of €2.5 billion and infrastructure construction of €1.1 billion. Building construction grew by 12% and infrastructure construction by 4% compared with 2020. Total output also grew compared with 2019, when the previous record was set. The Estonian construction market was strongly influenced by growth in building construction. Both new building construction and renovation and reconstruction volumes increased. The rise in infrastructure construction was mainly attributable to repair and reconstruction works. The output of Estonian construction companies' foreign operations declined by 5% year on year in both building and infrastructure construction. Output generated abroad accounted for 5% of Estonian construction companies' total output (2020: 6%).

According to the Estonian Building Register, 6,735 new dwellings received a permit of use in 2021, 11% less than in 2020. Most of the new dwellings (62%) were in apartment buildings. The most popular type of residential building was the three- to five-floor apartment building – this is the only type of building that has increased its share in the new buildings market in recent years. The majority of new dwellings had either two or four rooms. Four-room dwellings have dominated the new housing market for years but last year the share of one- to two-room dwellings increased and the share of three-room dwellings decreased. Most of the new dwellings were located in Tallinn, followed by the surrounding municipalities and Tartu county.

The number of construction permits issued for dwellings was 8,773, 0.7% smaller than in 2020. The number of new non-residential buildings that received a permit of use was 1,136 and their total usable area was 638,300 square metres. Growth was the strongest in the industrial, warehouse and logistics space segments. Compared with 2020, both the area and volume of non-residential buildings that received a permit of use decreased.

Outlooks of the group's geographical markets

Estonia

Processes and developments characterising the Estonian construction market

- The construction market has seen rapid change: a decline in 2020 was replaced by a swift upswing in 2021. Surging demand triggered a steep rise in input prices while the COVID-19 pandemic caused supply chain disruptions. The market continues to be strongly influenced by investments made by the public sector, which grew in 2021 at the same pace as the market. Growing demand and soaring input prices have raised construction prices by an estimated 30%. Thus, it is likely that public investments will decrease in 2022 because the building and infrastructure investments which have been planned can no longer be funded with the originally allocated resources. In particular, the investments of the Transport Administration are expected to decrease, which will intensify competition in the infrastructure segment and will have a direct effect on asphalt concrete production in a situation where relevant market supply is already significantly outstripping demand. Moreover, the state has not been able to carry out the planned procurements related to Rail Baltica which would counterbalance the decrease in the road construction and rehabilitation investments made by the Transport Administration. In view of the overall economic growth in the country, however, it is likely that the construction sector will sustain growth.
- While competition in the buildings segment has weakened due to market growth, competition in the infrastructure segment remains stiff and the situation is not likely to change in 2022. Supply-chain disruptions, which are driving up prices, are also making it difficult to meet the delivery dates agreed in construction contracts. The surge in the prices of some raw materials such as steel (up to 200%), oil-based insulation materials (up to 150%) and wood (up to 100%) is already outside normal business risk: it is not only inflating the prices of construction materials and work but is also putting the completion of started projects at risk. The hike in the prices of raw materials and supplies has triggered an unprecedented rise in the Construction Price Index, which in 2021 grew by 8.3% compared with a year earlier. The rise is mainly attributable to growth in materials prices but the effects of growing labour costs and an acute shortage of labour are increasing as well. The prices of energy carriers, which have seen swift growth, will have a strong effect on the market in 2022. It is clear that the rise is not temporary.

Although soaring prices will cool demand to a certain extent and some investments which have a business plan that cannot be realised will be deferred or considerably adjusted, high consumer demand will continue to fuel market growth.

- There is often a striking contrast between the stringent terms of public construction contracts, which impose numerous obligations, strict sanctions, different financial guarantee commitments, etc., and the modest eligibility criteria. While lenient qualification requirements and the precondition of making a low bid have made it relatively easy for an increasing number of builders to win a contract, they have also heightened the financial, completion delay, and quality risks taken by customers during the contract performance and the subsequent warranty period.
- The shortage of skilled and qualified labour (including project and site managers) has not decreased and the sector continues to need additional competent professionals, including foreign labour whose contribution has supported recent years' market growth.

Ukraine

In Ukraine, we are mainly involved in general contracting and project management in the segment of building construction. Political and economic instability continues to restrict the adoption of business decisions. We assess the situation in the Ukrainian construction market regularly and are ready to restructure our operations as and when necessary. We continue to seek opportunities to exit our two real estate projects, which have been put on hold, or to sign a construction contract with a prospective new owner.

Finland

In Finland, we have been offering mainly subcontracting services in the concrete work segment. The local concrete work market allows competing for projects where the customer wishes to source all concrete works from one reliable partner. In recent years, we have also secured some smaller contracts as a general contractor. Our policy is to maintain a rational approach and avoid taking excessive risks.

Sweden

In the Swedish market, we offer mainly the construction of residential and non-residential buildings in the central part of the country. In gaining experience in the new market, we have prioritised quality and adherence to deadlines, which has left its mark on profitability. The Swedish construction market began to recover in 2021 and it is anticipated that the year 2022 will see market growth, particularly in the building construction segment.

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, changes in demand for construction services and rapidly rising input prices. Demand for construction services continues to be strongly influenced by the volume of public investments, particularly in the infrastructure segment. Public investments, in turn, depend partly on the co-financing received from the EU structural funds.

Bid prices are under strong competitive pressure, especially in the infrastructure segment, and bidders increasingly include not only rival general contractors but also former subcontractors. This is mainly attributable to the central and local governments' policy to keep the eligibility requirements for public contracts low. As a result, quality and timely completion are sometimes sacrificed to the lowest price. We acknowledge the risks involved in performing contracts signed in an environment of stiff competition and the current economic uncertainties. In setting prices in such an environment, we strive to ensure a reasonable balance of contract performance risks and tight cost control.

Our action plan foresees flexible resource allocation aimed at finding more profitable contracts and performing them effectively. According to the business model, Nordecon operates in all segments of the construction market. Therefore, we are somewhat better positioned than companies that operate in only one narrow segment.

The group's business is also influenced by seasonal changes in weather conditions, which have the strongest impact on infrastructure construction where a lot of work is done outdoors (road construction, earthworks, etc.).

Our strategy is to counteract the seasonality of infrastructure operations with building construction that is less exposed to seasonal fluctuations. Our long-term goal is to be flexible and keep our two operating segments in relative balance. Where possible, our entities also implement various technical solutions that help them work efficiently in changing conditions. Investments in digital solutions which allow planning and managing construction processes more precisely grew substantially in 2021.

A key challenge for the construction sector is low productivity, which is attributable to the shortage of time in the preparatory and planning phases and outdated process management methods. Nordecon expects the digital solutions it has implemented to deliver a rise in productivity in 2022 already.

Operational risks

To manage their daily construction risks, group companies purchase contractors' all risks insurance. Depending on the nature of the project and the requests of the customer, both general frame agreements and special, project-specific insurance contracts are used. In addition, as a rule, subcontractors are required to secure the performance of their obligations with a bank guarantee provided to a group company or the group retains part of the amount due until the contract has been completed. To remedy construction deficiencies which may be detected during the warranty period, group companies create warranty provisions based on their historical experience. The group's warranty provisions (including current and non-current) at 31 December 2021 totalled €1,335 thousand (31 December 2020: €1,309 thousand).

In addition to managing the risks directly related to construction operations, in the past few years we have sought to mitigate the risks inherent in pre-construction activities. In particular, this applies to the bidding process, i.e. compliance with the procurement terms and budgeting. The errors made in the planning stage are usually irreversible and, in a situation where the price is contractually fixed, will cause a direct financial loss.

Financial risks

Credit risk

The group's credit losses for the period totalled €2,144 thousand (2020: €157 thousand). A major share of the credit losses resulted from expensing receivables from a customer of the Swedish subsidiary. The overall credit risk exposure of the portfolio of receivables is low because the solvency of prospective customers is evaluated, the share of public sector customers is large and customers' settlement behaviour is continuously monitored. The main indicator of the realisation of credit risk is a settlement default that exceeds 180 days along with no activity on the part of the debtor that would confirm the intent to settle.

Liquidity risk

The group remains exposed to higher than usual liquidity risk. At the reporting date, the group's current ratio was 0.94 (31 December 2020: 1.01). The key factors that influence the current ratio are the classification of the group's loans to its Ukrainian associate as non-current and the banks' general policy not to refinance interest-bearing liabilities (particularly overdrafts) for a period exceeding 12 months.

Because the political and economic situation in Ukraine continues to be complicated, we believe that the group's Ukrainian investment properties cannot be realised in the short term. Accordingly, the loans provided to the Ukrainian associate of €8,481 thousand were classified as non-current receivables at the reporting date.

For better cash flow management, we use overdraft facilities and factoring by which we counter the mismatch between the settlement terms agreed with customers and subcontractors. Under IFRS EU, borrowings have to be classified into current and non-current based on contract terms in force at the reporting date. The group's short-term borrowings at 31 December 2021 totalled €16,289 thousand (31 December 2020: €18,508 thousand). A significant share of current borrowings is made up of overdrafts which are expected to be extended after the reporting date.

The group's cash and cash equivalents as at the reporting date amounted to €9,031 thousand (31 December 2020: €12,576 thousand).

Interest rate risk

The group's interest-bearing liabilities to banks have both fixed and floating interest rates. Lease liabilities have mainly floating interest rates. The base rate for most floating-rate contracts is EURIBOR. The group's interest-bearing liabilities decreased by €2,166 thousand compared with a year earlier. Both lease and loan liabilities decreased. Interest-bearing borrowings at 31 December 2021 totalled €23,694 thousand (31 December 2020: €25,860 thousand). Interest expense for 2021 was €982 thousand (2020: €1,078 thousand).

The main source of interest rate risk is a possible rise in the base rates of floating interest rates. In the light of the group's relatively heavy loan burden, this would increase interest expense significantly, 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 floating interest rates.

Currency risk

As a rule, the prices of construction contracts and subcontracts are fixed in the currency of the host country, i.e. in the euro (€), the Ukrainian hryvnia (UAH) and the Swedish krona (SEK).

The exchange rate of the hryvnia is volatile because Ukraine's political and economic environment is complicated and the National Bank of Ukraine discontinued determining the national currency's indicative exchange rate at the beginning of 2015. In 2021, the hryvnia strengthened against the euro by nearly 12%. As a result, the group's Ukrainian subsidiaries, which have to translate their euro-denominated loans into the local currency, recognised a foreign exchange gain of €711 thousand (2020: a loss of €1,485 thousand). Exchange gains and losses on financial instruments are recognised in *Finance income* and *Finance costs*, respectively. The translation of receivables and liabilities from operating activities did not give rise to any exchange gains or losses.

Our Ukrainian and non-Ukrainian entities' reciprocal receivables and liabilities that are related to the construction business and denominated in hryvnias do not give rise to exchange gains or losses. The loans provided to the Ukrainian associate in euros do not give rise to exchange differences to be reported in the group's accounts either.

The Swedish krona weakened against the euro by around 2% in 2021. The translation of a loan provided to the Swedish subsidiary in euros into the local currency gave rise to an exchange gain of €16 thousand (2020: a loss of €24 thousand). Exchange gains and losses on financial instruments are recognised in *Finance income* and *Finance costs*, respectively. The translation of receivables and liabilities from operating activities did not give rise to any exchange gains or losses. In the comparative period, there was an exchange loss of €48 thousand, which was recognised in *Other operating expenses*.

The group has not acquired derivatives to hedge currency risk.

Employee and work environment risks

Finding a permanent quality workforce is a challenge for the entire construction sector and one of the main factors that influences business performance. To strengthen Nordecon's reputation as an employer and make sure that we will have employees in the future, we collaborate with educational institutions. Consistent employee development is essential and one of our acknowledged priorities. We also rely on our subcontractors' ability to find personnel with the required skills and qualifications.

We strive to minimise the health and safety risks of people working on our construction sites, including our own teams and those of our subcontractors, by applying all measures required by law and our management systems. Subcontractors are responsible for ensuring the safety of their operations and employees while our role is to create conditions that enable and foster compliance with safety regulations.

Environmental risks

Construction activities have a direct impact on wildlife, soil and the physical environment. Therefore, in conducting our operations we strive to protect the surrounding environment and nature as much as possible. The group's assets and operations which have the strongest impact on the environment and thus involve the highest environmental risks are asphalt plants, quarries used for the extraction of construction materials and road construction operations. The main environmental protection measures on construction sites include efficient use of materials and proper waste management. Excessive waste, leakage, spillage, pollution, destruction of wildlife and other damage to the environment is prevented by complying with legal requirements. All of the group's construction entities have implemented environmental management standard ISO 14001.

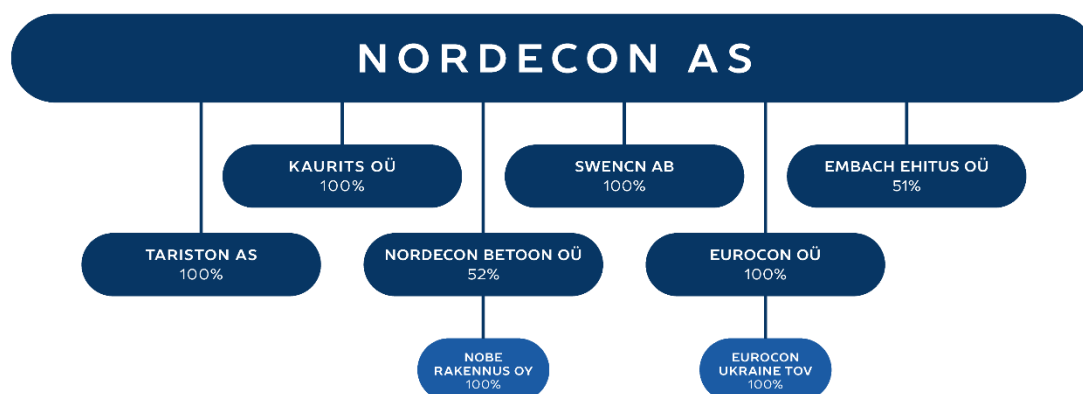
Corruption and ethical risks

Nordecon is one of the leading construction companies in the Estonian market. Therefore, it is important for us to be aware of the risks involved in breaching honest and ethical business practices. We have put in place internal procedures and policies, observe the rules of the Tallinn Stock Exchange and work with external and internal auditors as well as supervisory agencies. We make every effort to ensure that our entities' management quality, organisational culture and internal communication emphasise zero tolerance for dishonest, unethical and corrupt behaviour. Transparent decisions and open communication are underpinned by effective internal cooperation and external communication. Openness is supported by the continuously increasing implementation of IT solutions.

Business and financial review

Group structure

The group's structure at 31 December 2021, including interests in subsidiaries and associates*



*The structure does not include the subsidiaries OÜ Eesti Ehitus, OÜ Aspi, OÜ Linnaehitus, OÜ NOBE, OÜ Eston Ehitus, Infra Ehitus OÜ, Kalda Kodu OÜ, Kastani Kinnisvara OÜ, EE Ressursid OÜ, Swencn OÜ, Nordecon Statyba UAB, Eurocon Bud TOV, Technopolis-2 TOV and the associate V.I. Center TOV, which currently do not engage in any significant business activities. The first five were established to protect business names. Nor does the structure include investments in entities in which the group's interest is less than 20%.

The group's operations in Estonia and foreign markets

Estonia

There were no changes in our Estonian operations during the period under review. The group was involved in building and infrastructure construction, providing services in practically all market subsegments. A significant share of the core business was conducted by the parent, Nordecon AS, which is also a holding company for the group's larger subsidiaries. In addition to the parent, construction management services were rendered by the subsidiaries Nordecon Betoon OÜ (brand name NOBE) and Embach Ehitus OÜ.

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 (Tariston AS).

We did not enter any new operating segments in Estonia.

Foreign markets

Ukraine

There were no changes in our Ukrainian operations during the period under review. In 2021, our business activity in Ukraine remained at a level comparable to a year earlier. The group maintains a conservative approach: we sign contracts only when we are certain that the risks involved are reasonable given the circumstances.

Real estate development activities which require major investments remain suspended to minimise risks until the situation in Ukraine improves (we have currently interests in two development projects that have been put on hold). To safeguard the investments made and the loans provided, the group and the co-owners have privatised the property held by the associate V.I. Center TOV and created mortgages on it.

Finland

The group's subsidiary Nordecon Betoon OÜ and its Finnish subsidiary NOBE Rakennus OY continued to provide subcontracting services in the concrete work segment in Finland. In the past two years, they have also been awarded some smaller general contracts.

Sweden

In 2021, we completed work on construction projects started in 2019 and 2020. On 22 July 2021, Swencn AB filed an application with the Nacka District Court in Stockholm, Sweden, to initiate corporate restructuring proceedings. Through restructuring, Swencn AB wants to overcome the difficulties in paying bills, restructure creditors' claims and improve its liquidity. Nacka District Court initiated the restructuring proceedings on 22 July 2021 and the first meeting of the creditors, where Swencn AB also presented the restructuring plan, was held on 19 August 2021. The purpose of the restructuring is to ensure equal treatment of creditors and the continuation of the activities of Swencn AB. The restructuring proceedings were still in progress at 31 December 2021 (see note 37).

Swencn AB did not have any ongoing construction projects at 31 December 2021 but the company is seeking new opportunities to continue its business in the Swedish market.

Performance by geographical market

Revenue earned outside Estonia decreased substantially in 2021, accounting for 6% of the group's total revenue.

	2021	2020	2019	2018	2017
Estonia	94%	82%	89%	93%	94%
Finland	3%	6%	4%	1%	1%
Ukraine	2%	1%	2%	4%	2%
Latvia	1%	0%	0%	0%	0%
Sweden	0%	11%	5%	2%	3%

The contribution of foreign markets declined primarily due to the impact of the Swedish market where sales plummeted because the group was involved in completing previously started projects and did not sign any new contracts. The share of Finnish revenues decreased as well. Revenue earned in Ukraine remained stable year on year. In addition, the group operates on a project basis in Latvia where it was building a wind farm in 2021.

Geographical diversification of the revenue base is a consciously deployed strategy by which we mitigate the risks resulting from excessive reliance on a single market. However, conditions in some of our chosen foreign markets are also volatile and affect our current results. Our vision of the group's foreign operations is described in the chapter *Outlooks of the group's geographical markets*.

Performance by business line

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

The group's revenue for 2021 was €288,534 thousand, 2.5% down from a year earlier when revenue amounted to €296,082 thousand. Revenue decline is attributable to a decrease in foreign revenues, particularly no revenue from the Swedish market. Revenue generated in Estonia grew by 13% compared with a year earlier. In segment terms, revenue generated by the Buildings segment decreased by 5%, primarily due to the revenue change in the Swedish market, while revenue generated by the Infrastructure segment grew by 7%. In a situation where the order book of the Buildings segment has grown to include large-scale design and construction contracts, the segment's revenue is also affected by the fact that design activities, which precede construction, take a long time.

We strive to maintain the revenues of our operating segments (Buildings and Infrastructure) in balance as this helps diversify risks and provides better opportunities for continuing construction operations in more challenging circumstances where the volumes of one subsegment decline sharply while another begins to grow more rapidly.

Segment revenues

In 2021, the Buildings and the Infrastructure segment generated revenue of €216,070 thousand and €72,115 thousand, respectively. The corresponding figures for 2020 were €228,515 thousand and €67,142 thousand (see note 27). The low volumes of infrastructure construction that continue to affect the entire construction market also influence the group's revenue structure.

Revenue by operating segment*	2021	2020	2019	2018	2017
Buildings	75%	72%	70%	72%	74%
Infrastructure	25%	28%	30%	28%	26%

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

Subsegment revenues

In the Buildings segment, the revenue contributions of the commercial, public, and apartment buildings subsegments were practically equal while the revenue generated by the industrial and warehouse facilities subsegment continued to be modest. Revenue from the commercial and the industrial and warehouse facilities subsegments grew by 21% and 13% year-on-year, respectively. Revenue from the apartment buildings subsegment remained stable and revenue from the public buildings subsegment decreased by around 23%.

The largest projects under construction in the commercial buildings subsegment were a seven-floor commercial building in Rotermann City and the LEED Gold compliant Alma Tomingas office building in Ülemiste City in Tallinn and an IKEA concept store in Rae rural municipality near Tallinn.

The order book of the public buildings subsegment has grown considerably, supporting the subsegment's revenue growth in 2022. The largest projects completed in 2021 included an upper secondary school on the island of Saaremaa, a family health centre in Tartu, an extension to the building of the Estonian Foreign Intelligence Service in Rahumäe tee in Tallinn, and a barracks in Paldiski. The group continued work on the Medical Campus of the Tartu University Hospital and the main building of the Estonian Internal Security Service in Tallinn.

A significant share of the group's apartment building projects is located in Tallinn. During the period under review, the largest of them were the design and construction of the first two phases of the Kalaranna quarter and the design and construction of the Tiskreoja housing estate on the western border of Tallinn.

The group also continues to build its own housing development projects in Tallinn and Tartu (reported in the apartment buildings subsegment). During the period, work continued on the construction of the first two apartment buildings in the Mõisavahe housing estate in Tartu (<https://moisavahe.ee>) and the development of plots for Kivimäe Süda – a new housing estate in the Nõmme district in Tallinn. The period's revenue from own development projects was €3,097 thousand (2020: €2,866 thousand).



Saaremaa Upper Secondary School (Nordecon AS)



Family health centre in Tartu (Embach Ehitus OÜ)



Barracks in Paldiski (Nordecon AS)

In carrying out our own development activities, we carefully monitor potential risks in the housing development market.

The largest ongoing project in the industrial and warehouse facilities subsegment is the construction of a factory complex for the dairy company E-Piim in Paide. However, most of the subsegment's projects are small, with an average cost of €2 million. The largest projects of the period were a two-floor warehouse and office building in the Tähetorni Technopark, a logistics centre for the packaging supplier Pakendikeskus in Tallinn, and a production building for Viljandi Aken ja Uks in Piiri street in Viljandi.



*Pakendikeskus logistics centre
(Nordecon Betoon OÜ)*

Revenue breakdown in the Buildings segment	2021	2020	2019	2018	2017
Apartment buildings	29%	28%	27%	25%	30%
Commercial buildings	29%	23%	36%	35%	25%
Public buildings	28%	37%	29%	25%	19%
Industrial and warehouse facilities	14%	12%	8%	15%	26%

In the Infrastructure segment, the largest revenue contributor is still the road construction and maintenance subsegment, which increased its revenue by around 11% year on year. The period's largest ongoing projects were the construction of the Vão junction on the eastern border of Tallinn and 2+2 passing lanes on the Kärevere-Kardla section of the Tallinn-Tartu-Võru-Luhamaa road, the performance of earthworks on the Võõbu-Mäo section of the Tallinn-Tartu road, and the reconstruction and rehabilitation of national roads in Hiiu county. We also delivered road maintenance services in Järva and Hiiu counties and the Kose maintenance area in Harju county.



Vão junction (Nordecon AS)

The group has won several contracts for the construction of small harbours. During the period, work was done on the construction of Salmistu harbour and Vasknarva boat harbour and the expansion of quays in Roomassaare harbour on the island of Saaremaa, which accounted for a major share of the specialist engineering revenue.



Salmistu harbour (Kaurits OÜ)

Revenue breakdown in the Infrastructure segment	2021	2020	2019	2018	2017
Road construction and maintenance	87%	74%	78%	89%	86%
Other engineering	6%	21%	18%	7%	8%
Environmental engineering	3%	1%	3%	4%	6%
Specialist engineering (including hydraulic engineering)	4%	4%	1%	0%	0%

Selection of completed projects

Major projects completed by group entities in different subsegments in 2021*:

Brief description of the project	Group entity	Customer	Subsegment
Kohtla-Järve Sports and Health Centre	Nordecon AS	Kohtla-Järve City Government	Public buildings
Kindluse School	Nordecon AS	Rae Rural Municipality Government	Public buildings
Saaremaa Upper Secondary School	Nordecon AS	Riigi Kinnisvara AS	Public buildings
Ajamaja office building at Rotermanni 6	Nordecon AS	Rotermann City OÜ	Commercial buildings
Kobrulehe water treatment plant	Nordecon AS	Tartu Veevärk AS	Environmental engineering
Reconstruction of the Pärnu seafront promenade	Nordecon AS	Pärnu City Government	Other engineering
Reconstruction of the Viru puiestee street in Sillamäe (phase 1)	Nordecon AS	Sillamäe City Government	Road construction
Logistics centre for Pakendikeskus **	Nordecon Betoon OÜ	Pakendikeskus AS	Industrial and warehouse facilities
COOP/Konsum supermarket	Nordecon Betoon OÜ	Hiumaa Consumers Cooperative Association	Commercial buildings
Polaris office building: concrete works	Nordecon Betoon OÜ	Kaamos Ehitus OÜ	Commercial buildings
Raatus Health Centre	Nordecon Betoon OÜ/ Embach Ehitus OÜ	Tartu Kesklinna Perearstikeskus OÜ	Public buildings
Warehouse and office buildings at Vana-Kandi 1 and 2	Embach Ehitus OÜ	Kaarsilla Kinnisvara OÜ	Commercial buildings
Reconstruction of Valga Police Building	Embach Ehitus OÜ	Riigi Kinnisvara AS	Public buildings
Logistics centre and office block for Viljandi Aken ja Uks AS	Embach Ehitus OÜ	Viljandi Aken ja Uks AS	Industrial and warehouse facilities
Reconstruction and maintenance of national roads in Hiiu county	Tariston AS	Transport Administration and Hiiu Rural Municipality Government	Road construction
Reconstruction of Läpi-Ojaküla road	Tariston AS	Tapa Rural Municipality Government	Road construction
Field training facilities for defence forces' central training area (phase 1)	Tariston AS	Republic of Estonia Centre for Defence Investment	Road construction
Earthworks on the Võõbu-Mäo road section	Kaurits OÜ	GRK Infra AS	Road construction
Construction of Vasknarva boat harbour (phase 1)	Kaurits OÜ	Alutaguse Rural Municipality Government	Specialist engineering
Reconstruction of Salmistu harbour (phase 1)	Kaurits OÜ	Kuusalu Rural Municipality Government	Specialist engineering

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

** In partnership with Eventus Ehitus OÜ

Financial review

Financial performance

The Nordecon group ended 2021 with a gross profit of €4,021 thousand (2020: €10,996 thousand) and a gross margin of 1.4% (2020: 3.7%). The gross margin decreased in both operating segments. Gross margins were 2.0% (2020: 3.6%) for the Buildings segment and 1.0% (2020: 5.1%) for the Infrastructure segment. The gross margin of the Buildings segment was mainly influenced by:

- Growth in input prices, which mainly affected contracts signed in 2020. The prices of raw materials and supplies stabilised somewhat in the third quarter but rising energy prices and labour costs had a strong impact on fourth-quarter inputs.
- Supply chain disruptions, which continue to put pressure on the timely completion of construction projects. Extensions of contract terms cause additional costs.

- One-off losses in the Swedish market. The costs related to the completion of two projects (the Nysäter wind farm and an apartment building) totalled €3,346 thousand.

The performance of the Infrastructure segment was also influenced by the upswing in commodity prices, especially the prices of metal and energy carriers, which significantly increased the production cost of asphalt concrete. Another factor was the order book structure: the share of projects involving the production and laying of asphalt concrete was small and thus the share of uncovered fixed costs was higher than usual.

The group's administrative expenses for 2021 were €6,053 thousand. Compared with 2020, administrative expenses decreased by around 14% (2020: €7,073 thousand), mainly through a decline in personnel expenses (see note 29). The ratio of administrative expenses to revenue was 2.1% (2020: 2.4%).

The group ended 2021 with an operating loss of €4,336 thousand (2020: operating profit of €3,575 thousand). Operating result was affected by the recognition of credit losses of €2,144 thousand. A major share of the credit losses resulted from expensing the receivables due from a customer of the Swedish subsidiary. EBITDA was negative at €797 thousand and EBITDA margin was negative at 0.3% (2020: positive at €7,003 thousand and 2.4%).

The group's finance income and costs are affected by exchange rate fluctuations in the group's foreign markets (see the chapter *Financial risks*). During the period, the Ukrainian hryvnia strengthened against the euro by around 12% while the Swedish krona weakened against the euro by around 2%. Translation of the loans provided to the group's subsidiaries in euros into the Ukrainian hryvnias and Swedish krona gave rise to exchange gains of €711 thousand and €16 thousand, respectively (2020: exchange losses of €1,485 thousand and €24 thousand, respectively). Finance income for 2020 was also influenced by the sale of the group's investment in the associate Pigipada OÜ, which produced sales gain of €2,749 thousand (see note 31).

The group incurred a net loss of €5,506 thousand (2020: earned a net profit of €4,118 thousand). The loss attributable to owners of the parent, Nordecon AS, was €6,310 thousand (2020: a profit of €2,466 thousand).

Cash flows

Operating activities produced a net cash inflow of €7,365 thousand in 2021 (2020: €2,443 thousand). The key factor that affects operating cash flow is the mismatch between the settlement terms agreed with customers and suppliers. Operating cash flow is also strongly influenced by the fact that the contracts signed with most public and private sector customers do not require them to make advance payments while the group has to make prepayments to subcontractors and materials suppliers. The share of prepayments increased in 2021 due to the COVID-19 pandemic. Cash inflow is additionally lowered by contractual retentions, which extend from 5 to 10% of the contract price and are released at the end of the construction period only.

Investing activities resulted in a net cash inflow of €312 thousand (2020: 8,286 thousand). Investments in the acquisition of property, plant and equipment and intangible assets totalled €251 thousand (2020: €271 thousand) and proceeds from the sale of property, plant and equipment amounted to €489 thousand (2020: €332 thousand). Cash flow for the comparative period was strongly influenced by the reclassification of Embach Ehitus OÜ from an associate into a subsidiary, which generated cash inflow of €3,605 thousand, and the sale of the investment in the associate Pigipada OÜ, which generated cash inflow of €3,596 thousand.

Financing activities generated a net cash outflow of €11,225 thousand (2020: an outflow of €5,165 thousand). The largest items were loan and lease payments. Proceeds from loans received totalled €1,922 thousand, consisting of the use of overdraft facilities and development loans (2020: €2,026 thousand). Repayments of loans received totalled €3,766 thousand, consisting of regular repayments of long-term investment and development loans (2020: €2,629 thousand). Lease payments totalled €3,318 thousand (2020: €3,086 thousand). Dividends paid in 2021 amounted to €5,000 thousand (2020: €472 thousand).

The group's cash and cash equivalents at 31 December 2021 totalled €9,031 thousand (31 December 2020: €12,576 thousand). Management's commentary on liquidity risks is presented in the chapter *Description of the main risks*.

Key financial figures and ratios

Figure/ratio	2021	2020	2019	2018	2017
Revenue (€'000)	288,534	296,082	234,071	223,496	231,387
Revenue change	(2.5)%	26.5%	4.7%	(3.4)%	26.2%
Net profit (loss) (€'000)	(5,506)	4,118	4,149	3,821	1,725
Net profit (loss) attributable to owners of the parent (€'000)	(6,310)	2,466	3,378	3,381	1,388
Weighted average number of shares	31,528,585	31,528,585	31,528,585	31,528,585	30,913,031
Earnings per share (€)	(0.20)	0.08	0.11	0.11	0.04
Administrative expenses to revenue	2.1%	2.4%	2.9%	3.0%	3.0%
EBITDA (€'000)*	(797)	7,003	7,311	6,021	3,123
EBITDA margin	(0.3)%	2.4%	3.1%	2.7%	1.3%
Gross margin	1.4%	3.7%	5.0%	4.5%	3.8%
Operating margin	(1.5)%	1.2%	1.8%	1.8%	0.5%
Operating margin excluding gain on asset sales	(1.6)%	1.1%	1.7%	1.3%	0.5%
Net margin	(1.9)%	1.4%	1.8%	1.7%	0.7%
Return on invested capital	(6.5)%	9.3%	10.0%	8.4%	5.9%
Return on equity	(16.8)%	11.8%	12.5%	11.2%	4.8%
Equity ratio	20.8%	27.6%	27.9%	32.4%	30.8%
Return on assets	(4.1)%	3.3%	3.7%	3.5%	1.6%
Gearing	28.3%	21.1%	33.8%	28.5%	32.7%
Current ratio (note 5)	0.94	1.01	1.01	1.12	1.11

At 31 December	2021	2020	2019	2018	2017
Order book (€'000)	266,856	215,796	227,545	100,352	144,122

* EBITDA includes the effects of goodwill. 2020: gain on a bargain purchase of €139 thousand.

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

Order book

The group's order book (backlog of contracts signed but not yet performed) stood at €266,856 thousand at 31 December 2021, a 24% increase year on year. In 2021, we signed new contracts of €314,758 thousand (2020: €236,577 thousand). The group was equally successful in winning both public and private contracts.

At 31 December	2021	2020	2019	2018	2017
Order book (€'000)	266,856	215,796	227,545	100,352	144,122

The proportions of the two main operating segments in the group's order book have not changed substantially: the Buildings segment continues to dominate with 87% while the share of the Infrastructure segment is 13% (31 December 2020: 81% and 19%, respectively). Compared with 31 December 2020, the order book of the Buildings segment has grown by 37% and the order book of the Infrastructure segment had decreased by 34%. The decline in the Infrastructure order book is mainly attributable to a lack of large-scale contracts with the Transport Administration.

A significant share of the order book of the Buildings segment is made up of contracts signed in 2021, the largest of which are:

- the extension and reconstruction of the main building of the Estonian Internal Security Service with a cost of around €42,300 thousand;
- the design and construction of the commercial and residential complex Vektor at Pärnu mnt 137 in Tallinn with a cost of around €38,000 thousand;
- the design and construction of the Luccaranna housing estate in a seaside area on the western border of Tallinn with a cost of around €25,700 thousand;
- the construction of an IKEA concept store in Rae rural municipality near Tallinn with a cost of around €23,000 thousand;
- the construction of the Roseni office building at Ahtri 4 in Tallinn with a cost of around €17,000 thousand;
- the design and construction of phase 2 of the Tiskreoja housing estate on the western border of Tallinn with a cost of around €10,600 thousand;
- the design and construction of warehouses and associated external networks for the Centre for Defence Investment in Harju county with a cost of around €9,800 thousand;
- the construction of concrete structures for the Kemi pulp mill in Northern Finland with a cost of around €6,800 thousand;
- the design and renovation of a sports hall for the Ülenurme Upper Secondary School near Tartu with a cost of around €5,600 thousand;
- the construction of the Kastani Kodud housing estate in Jõelähtme rural municipality near Tallinn with a cost of around €5,500 thousand.

In the Infrastructure segment, the order book of the road construction and maintenance subsegment is still the largest, accounting for nearly 88% of the segment's order book. A major share of the order book is made up of contracts signed in 2021, the largest of which are:

- the construction of 2+2 passing lanes on the Kärevere-Kardla section of the Tallinn-Tartu-Võru-Luhamaa road with a cost of around €12,600 thousand;
- the design and construction of the outdoor space around Terminal D in Old City Harbour in Tallinn with a cost of around €5,900 thousand;
- the construction of a wind farm in Targale, Latvia, in a project where Nordecon Betoon OÜ participates as one of joint bidders and which has a total cost of around €13,500 thousand.

We also continue to deliver road maintenance services in Järva county under a five-year contract signed in 2020.

Based on the size of the group's order book, including the share of work to be performed in 2023, management expects that in 2022 the group's revenue will grow compared with 2021. The uptrend in the prices of energy carriers and labour costs, however, will continue to increase input prices and thus undermine profit margins. In an environment of stiff competition, we have avoided taking unjustified risks whose realisation in the contract performance phase would have an adverse impact on the group's results. To mitigate input price risk, we have been signing cost-plus contracts with private sector customers (contracts with an open book arrangement under which we can invoice the customer based on costs incurred plus an agreed margin). Our focus remains on cost control as well as pre-construction and design activities, where we can harness our professional competitive advantages.

Investments and capital expenditures

Equity investments

We did not make any investments in non-group entities in the reporting period. Investments made are described in the directors' report, in the chapter *Group structure*, and in note 6 to the financial statements.

Investment properties

We did not acquire or sell any investment properties (properties held for resale, rental income or capital appreciation) in the reporting and the comparative period (see note 12 to the financial statements).

Investments in property, plant and equipment and intangible assets

Capital expenditures on property, plant and equipment totalled €3,291 thousand in 2021 of which €2,861 thousand was spent on right-of-use assets (2020: €2,539 thousand of which €1,982 thousand was spent on right-of-use assets) (see note 13). Investments made fell into three main categories: replacement of obsolete machinery and equipment, improvement of operating efficiency, and ensuring compliance with road maintenance requirements.

There were no major outlays on intangible assets (see note 14).

Changes in the carrying amounts of relevant asset classes

Asset class (€'000)	2021	2020
Investments in equity-accounted investees (note 11)	0	(2,369)
Property, plant and equipment (carrying amount) (note 13)	(620)	(949)
Intangible assets (carrying amount) (note 14)	85	230

In 2022, the volume of capital expenditures will remain comparable to 2021. The focus will be on replacing obsolete machinery and equipment and improving operating efficiency.

EU taxonomy reporting

The main objective of the European Union's sustainable finance policy is to channel finance into sustainable investments. This is facilitated by the EU Taxonomy Regulation, which took effect in mid-2020. The Regulation establishes a taxonomy for assessing which economic activities are considered environmentally sustainable in the EU. The Regulation does not apply to all economic sectors but focuses on activities with the greatest environmental impact, which include construction and real estate activities. Article 9 of the Taxonomy Regulation specifies the following six environmental objectives:

- a) climate change mitigation;
- b) climate change adaptation;
- c) sustainable use and protection of water and marine resources;
- d) transition to a circular economy;
- e) pollution prevention and control;
- f) protection and restoration of biodiversity and ecosystems.

The EU has established technical screening criteria for the first two objectives. In accordance with the EU disclosure requirements, companies must provide information only on the proportion of taxonomy-eligible economic activities in their turnover (revenue), capital expenditure and operational expenditure (operating expenses) for 2021.

Revenue

The group's taxonomy-eligible revenue has been determined based on the breakdown of revenue by segments. Segment revenue comprises revenue from various projects/contracts. Taxonomy-eligible revenue comprises revenue generated in the Buildings segment under general contractor's agreements (general contracts).

Capital expenditure

Capital expenditure (CapEx) comprises the period's additions to property, plant and equipment and intangible assets before depreciation, amortisation and remeasurements of the period, excluding changes in fair value. The group's operations are project-based and CapEx cannot be fully attributed to specific projects. Thus, the group's taxonomy-eligible CapEx has been determined based on the ratio of each group company's taxonomy-eligible revenue to the company's total external revenue. Taxonomy-eligible CapEx has been calculated by multiplying total CapEx for the period by the proportion of taxonomy-eligible revenue. As a significant proportion of the group's CapEx is related to group companies whose revenue is not taxonomy-eligible, the proportion of taxonomy-eligible CapEx is considerably smaller than that of taxonomy-eligible revenue.

Operating expenses

For the purposes of taxonomy reporting, operating expenses comprise direct non-capitalised expenses on research and development (incl. training), building renovation, short-term leases, maintenance and repair, and any other direct costs related to the day-to-day servicing of items of property, plant and equipment. Taxonomy-eligible operating expenses have been calculated similarly to CapEx.

Key performance indicators

	Total (€'000)	Taxonomy-eligible (€'000)	Proportion, %
Revenue	288,534	193,331	67%
Capital expenditure	3,450	849	25%
Operating expenses	4,125	778	19%

Proportion of taxonomy-eligible revenue (%) = taxonomy-eligible revenue / total revenue

Proportion of taxonomy-eligible capital expenditure (%) = taxonomy-eligible capital expenditure / total capital expenditure

Proportion of taxonomy-eligible operating expenses (%) = taxonomy-eligible operating expenses / total operating expenses

From 2022, companies are expected to carry out more extensive analyses to meet the disclosure obligations. In addition to the assessment of eligibility, the group has to assess whether its taxonomy-eligible activities contribute substantially to the environmental objectives specified in the Taxonomy Regulation.

Quality service and customer experience

The quality metrics of a construction company are properly managed projects and buildings and infrastructure assets which have been delivered on time and meet the required quality standards. Construction quality, transparent operations and open communication with the customer throughout the construction process ensure the highest level of customer satisfaction. The best result is achieved when the customer, the architect, the designer, the owner's engineer and the builders follow the same principles and work together towards a common goal.

The group's operations are based on conscious and systematic quality management. Our quality, environmental, and health and safety management systems are based on the requirements of international standards (ISO 9001, ISO 14001, ISO 45001). We execute every project in accordance with the requirements agreed with the customer, project documentation, construction laws and standards, and our own management system.

A key outcome of quality management is safety and our primary obligation is to build safe and secure buildings and infrastructure assets. We make no concessions in matters related to the safety of the buildings and infrastructure assets completed by us.

In quality management, we focus not only on detecting defects and errors but also on identifying excellence. Noticing the positive helps reinforce the right behaviour and highlights the abundance of good examples.

At the parent company, each completed project is assigned a quality coefficient, which is based on compliance with safety rules, deadlines, technical requirements, effective error and defect resolution and customer feedback, and determines the performance-related pay of the project teams. Most group entities carry out customer satisfaction inquiries after the completion of a project.

Examples from the year 2021

Last year was unusual and turbulent. Housing construction rebounded rapidly after the slowdown caused by the pandemic in 2020, which increased workloads against a backdrop of continuing supply chain disruptions and hikes in global commodity prices. We worked hard to meet previously agreed deadlines in a changed market situation and to maintain good relations with customers. Despite the pandemic and other challenges, we were able to maintain strong leadership and work on our construction sites was not interrupted.

Nordecon's key strengths are high service quality and professional engineers. Our skills and competencies give us a clear competitive edge in large-scale and complex projects.

High customer satisfaction

Despite a challenging economic environment, customer satisfaction remained very high. We were able to find constructive compromises, improve cooperation and build mutual trust. The key factors that helped us maintain high customer satisfaction in a changed market environment were the expertise and professionalism of our people.

Implementation of a warranty claims management system at Nordecon’s subsidiaries

Nordecon Betoon OÜ and Embach Ehitus OÜ are implementing a warranty claims management system. The main goal is to improve customer feedback management and make sure that all warranty claims are documented and archived. Development of the solution will continue in 2022.

Minor quality deficiencies

Minor quality defects are unavoidable and fixed during the warranty period. In 2021, all identified quality deficiencies were minor and did not compromise the safety of completed buildings in any way. All defects are documented and discussed with the parties involved to prevent their recurrence.

Performance indicators

	2021	2020
Customer satisfaction score*		
Nordecon AS	92%	92%
Tariston AS	93%	91%
Kaurits OÜ	90%	97%
Eurocon Ukraine TOV	94%	92%
Embach Ehitus OÜ	87%	84%
Non-compliance with regulations and the quality management system		
Number of completed construction projects’ non-compliances with health and safety regulations and/or voluntarily observed standards	0	0
Number of non-compliances with the management system detected during internal audits that prevent achievement of goals set	0	0

** Each entity applies its own methodology. The result is converted to a scale of 100%.

Local communities

A high-quality construction process disturbs the surrounding area as little as possible. Construction activity is inevitably accompanied by noise, vibration, dust, transport operations and changes in traffic management, which affect the wellbeing of the local community.

It is not possible to eliminate disturbing factors completely but their impacts can be reduced. The group notifies local communities about planned works in advance, using the media, direct communication and visits to the area. Good relations with the community facilitate the group’s future operations in the same area.

To shorten the period of disturbance, we sometimes ask the community and local authorities to permit longer workdays. Where possible, we schedule noisier work for times when it disturbs the community as little as possible. We strive to avoid any damage to the surrounding buildings and infrastructure. Where damage occurs, we cover the rectification costs.

Generally, we have good relations with local communities. People are cooperative and understanding and smaller issues are resolved as they arise. When we undertake large-scale projects in areas where the local community is active, we increase our communication activities accordingly.

Examples from the year 2021

On the whole, the year 2021 went smoothly. Although many construction sites were in challenging locations, we were able to arrange work so that there were no major complaints or grievances. As in previous years, Nordecon’s internal quality management system functioned effectively: all complaints received were immediately registered in our IT system and handled.

- The project at Rotermanni 6 required extra efforts in terms of work arrangement as the site is located in the city centre where space is limited. Despite the challenges we were able to conduct construction activities smoothly and without significant criticism.

- In the project of the consortium of Nordecon and Embach Ehitus, construction work on the **Medical Campus of the Tartu University Hospital** interfered with the work of the hospital but good communication and swift response to emerging issues yielded a positive outcome.
- The construction of the Vão junction on the busy Laagna road is a highly complex project and there have been minor issues with traffic management. We have worked closely with partners to inform the public regularly of changes in traffic arrangement both via the media and our own communication channels, including by means of animated graphics.
- The aggregates used in the construction of the Sillamäe junction included limestone extracted on the spot and we received some complaints about the dust emissions of our operations. Also, on some occasions bus drivers were not notified of traffic changes in time.
- While building the Kohtla-Järve Sports Centre, we developed an excellent relationship with the local community. The project ended with joint events and mutual recognition of efforts made.
- During the construction of the IKEA concept store, traffic had to be redirected, which confused the local community.
- The construction of the Alma Tomingas office building at Sepise 7 by the consortium of Nordecon and NOBE is a good example of cooperation with local residents. The customer involved the local community in all major stages of the project. Community representatives were also invited to project-related events organised in 2021.
- Embach Ehitus OÜ has had challenging projects in Tartu city centre but has always managed to avoid negative feedback. The company proactively prevents issues and takes time to communicate with the local community.
- Tariston AS considers the interests of local communities in prospecting for new quarries.

Performance indicators

	2021	2020
Reasoned official complaints from people living near construction sites	8	6

The complaints were related to traffic management, noise, vibration, dust, and muddy roads caused by construction vehicles.

Suppliers, subcontractors, purchasing and procurement

Smooth and high-quality execution of construction projects depends largely on co-operation with subcontractors and material and product suppliers. Honest and transparent communication, early detection and resolution of issues, mutual respect and compliance with agreements build trust and help prevent and solve problems.

It is important to have business partners that are recognised operators in their field, meet the customer's and our expectations, and observe the agreed requirements. Nordecon does not work with partners who have been known to engage in dishonest business practices.

The group is responsible for the quality of materials used on its construction sites. Although the main building materials are specified in the project documentation, in certain areas we can use our experience and expertise to offer customers alternative, better and more efficient solutions. As a rule, all building materials and products have to meet high standards and we consistently check all materials and products to avoid subsequent risks.

In selecting partners, we consider their background, track record, quality of work done, technical capabilities, financial position, security of supply, adherence to deadlines and prices.

At the parent, each supplier and subcontractor is evaluated after an order or specific work has been completed. At other group entities, the evaluation is carried out once a year but subsidiaries are taking steps to implement the same model. In the parent company's electronic system, subcontractors are evaluated based on the following criteria: time, quality, cooperation, team, documentation, safety and the environment.

Examples from the year 2021

Unprecedented situation in the construction market

The year 2021 was marked by soaring demand, which triggered a shortage of raw materials, steep fluctuations in market prices and a surge in materials prices. Related economic risks have been difficult to manage. The situation has created additional challenges in securing subcontracting services and buying supplies.

Tariston AS faced significant mid-season pressures due to problems with the availability of heavy equipment and rising fuel prices. High demand and supply disruptions lowered the availability and increased the prices of imported materials (granite and metal products). In spite of the difficulties, the company met the deadlines.

Attracting and retaining subcontractors

In the current market situation where demand is high subcontractors can choose the projects they prefer and general contractors have difficulties in finding partners. This has made partner retention a priority. General contractors that wish to maintain a long-standing relationship with their subcontractors have to be understanding and accommodating. In 2021 we had many large-scale and complex projects, building construction costs increased considerably and we had to engage a lot of subcontractors. All this required good coordination skills.

Flexible customers

Our customers have had to be more flexible because supply bottlenecks and price increases have forced us to replace originally planned materials with suitable alternatives. In such cases, an expert analysis is always carried out to verify that the new material is equivalent in terms of its qualities, efficiency and safety.

Database of subcontractors

In 2021, we continued to develop the electronic environment where we collect feedback on subcontractors. The previous five evaluation criteria (time, quality, cooperation, team, documentation) were supplemented by another two: safety and the environment. When a project ends, the project manager evaluates the subcontractor and the ratings given can be taken into account when selecting partners in the future. The new evaluation system has been successfully launched at the parent and subsidiaries are planning to introduce it as well.

Performance indicators

	2021	2020
Share of subcontractors with whom an agreement on meeting health and safety requirements has been signed	98%	98%
Number of subcontractors with significant detected breaches, risks or negative impacts relating to health and safety, which resulted in termination of business relations or a formal decision to avoid collaboration in the future	0	0
Share of subcontractors with whom an agreement on meeting environmental criteria has been signed	96%	96%
Number of subcontractors with significant detected breaches, risks or negative impacts relating to environmental aspects, which resulted in termination of business relations or a formal decision to avoid collaboration in the future	0	0

The agreements signed with subcontractors set out the obligations of both parties in ensuring work, fire, electrical and environmental safety.

Digital construction and technological solutions

Digital construction, i.e. the use of digital solutions in construction activities, is part of our daily work. The purpose is to make work more efficient, transparent and systematic, so that we can better analyse our operations and make smarter decisions. Our ambition is to be a digital construction leader and advocate and to contribute to making the use of practical digital solutions a daily standard. Digital construction helps modernise the construction business and makes its image more attractive to young people choosing a profession.

The Digital Construction Cluster brings together various stakeholder groups that are involved in the development of the field. Nordecon is an active member of the board of the Cluster and supports the development of digital construction in Estonia.

Building Information Modelling (BIM) is a key digital construction tool, which allows creating 3D models of buildings and infrastructure assets and facilitates cooperation between all parties involved in a construction project (architects, designers, budgeters and builders). BIM improves overall project quality as errors can be detected and corrected before the construction stage and the customer gains a better overview and understanding of the process.

Model-driven design helps develop smarter energy consumption, space planning, lighting, indoor climate and other solutions. A preliminary virtual walk-through of the construction process enables us to identify areas which may become danger zones and to plan how to mark them on the construction site. Model-based project management also increases transparency and improves communication – all parties have the same information, which helps them understand each other’s needs.

Project management software Bauhub is an electronic platform for digital management of all documents used on the construction site. A common data environment makes project management faster and simpler as well as more transparent and systematic. Documents are created and signed in the digital environment. To realise the full potential of Bauhub it is important that subcontractors should start using it.

We also use other IT solutions to do our work more quickly, conveniently and smartly. For example, we have Simple-BIM for budgeting, Dalux for viewing and checking 3D models on smart devices on the construction site, and BlueBeam for exchanging the content of PDF documents. Our subsidiary NOBE uses Hausing, an electronic management tool that provides both the contractor and the customer with a good overview of warranty work.

Examples from the year 2021

Our units and management collaborated closely in 2021. BIM and Bauhub were integrated into all projects and our staff began using them on a daily basis. Nordecon continued to contribute to the development of the sector through the Digital Construction Cluster and the Estonian Association of Construction Entrepreneurs.

Use of BIM

- In 2021, we moved vigorously forward with the digitalisation of business processes. Construction projects have many parties and one of the biggest challenges is to exchange information so that everyone knows which stage of work others have reached. This helps organise work more efficiently and smoothly and cut the time spent on different construction phases. In building the **E-Piim factory complex**, we used **BIM in management planning**. By this we took the use of BIM to the next level, widening its application from information modelling and preparatory activities to construction management.
- BIM, which is widely used in building construction, is becoming standard practice in road construction. The Transport Administration has set the requirement that BIM must be used in all its new projects. BIM is also being used in the construction of roads and outdoor infrastructure in an ongoing **private sector pilot project** (Terminal D in Old City Harbour).

Launch of the business technology department

The parent company’s business technology department leads new projects and makes sure that the group has a systematic approach to digitalisation. For example, in 2021 a new metrics system was created that provides a quick overview of the state of construction projects and makes the management process more effective and efficient. In addition, web-based time management and budgeting programmes were upgraded and some features of the Bauhub environment were developed to improve the documentation of construction work. In 2021, an external IT consultant was hired who gave recommendations for the development of business technology. The collaboration will continue in 2022.

Performance indicators

	2021	2020	2019	2018	2017
Number of construction projects where BIM was used	51	51	41	47	31

Employees and work environment

Employees

We provide our employees with a modern and professional work environment because competent and highly motivated staff play a key role in our success. Our scale of operations offers excellent opportunities for rewarding and productive work as well as personal growth and development. We employ people of different ages, genders and ethnicities as well as people with special needs.

Nordecon takes a strategic approach to employer reputation and brand and invests in promoting the construction industry. We pay particular attention to young people and annually organise events designed to attract and develop new talent. We respect human rights and relevant policies are set out in our internal rules and regulations.

We have joined the Family Friendly Employer Programme and hold a starting-level label for our efforts in the area. In the framework of the programme, we focus on topics that help make Nordecon's work arrangement more efficient for our employees and improve work-life balance.

Examples from the year 2021

Number of employees, personnel expenses and productivity

- In 2021, the group's parent and subsidiaries employed, on average, a total of 685 people, including 434 engineers and technical personnel (ETP). Headcount decreased by around 3% compared with 2020.
- The group's personnel expenses for 2021, including all taxes, were €25,054 thousand (2020: €27,130 thousand). Personnel expenses decreased by around 8% year on year through a decline in the number of employees, a decrease in the share of performance bonuses, and a reduction of salaries carried out in the middle of 2020.
- The group's nominal labour productivity for the period remained essentially at the same level as a year earlier. Nominal labour cost efficiency improved year on year, supported by a decrease in personnel expenses.

Attracting new employees

The year 2021 was characterised by high employee turnover, wage pressures and higher than usual market anxiety. We arranged nearly 50 competitions to fill vacancies at Nordecon and Tariston, which is significantly more than usual. In addition to our regular recruitment channels we sought alternatives such as social media to reach a larger number of people.

It was difficult to find top talent. Human resource matters are becoming increasingly more important and we need to improve the effectiveness of our employee recruitment, training and retention strategies.

New talent and internship programme

Nordecon's internship programme attracted a lot of attention in 2021 and interns played a bigger than usual role in our daily work. There were a lot of candidates and, for example, the parent offered an internship to 22 young people. Our interns gained a lot of valuable experience because supervisors involved them in numerous real projects. Despite the pandemic, the programme was carried out in the traditional way: people met face to face and most of the learning took place on construction sites.

After several years, interns again included a lot of young women, which is a welcome development from the point of view of workforce diversity.

Second place in Most Attractive Employers survey

In the Most Attractive Employers survey conducted by Instar EBC among the students of higher and vocational education institutions in 2021, engineering students rated Nordecon AS the second most attractive employer. The high ranking was achieved through years of dedicated work with students.

Performance indicators

	2021	2020	2019	2018	2017
Number of employees					
Total average number of employees at group entities	685	708	687	687	735
Of which: engineers and technical personnel (ETP) workers	434	450	414	419	426
	251	258	273	268	309
Change in number of employees , year on year	(3)%	3%	0%	(6.5)%	7.5%
Gender diversity					
Proportion of women in the group's workforce	16%	15%	16%	17%	17%
Proportion of men in the group's workforce	84%	85%	84%	83%	83%
Proportion of women among group entities' board members	8%	8%	7%	13%	13%
Proportion of men among group entities' board members	92%	92%	93%	87%	87%
Age diversity					
Proportion of employees under 30 years old	21%	21%	21%	23%	25%
Proportion of employees 30-49 years old	57%	56%	54%	51%	48%
Proportion of employees 50 years old and over	22%	23%	25%	26%	27%
Productivity					
Nominal labour productivity (€'000)*	420.8	422.9	340.6	325.4	314.9
Change against the comparative year, %	(0.5)%	24.2%	4.7%	3.3%	17.6%
Nominal labour cost efficiency (€)**	11.5	10.9	9.2	9.7	10.1
Change against the comparative year, %	5.5%	18.0%	(5.0)%	(3.8)%	12.6%
Personnel expenses					
Personnel expenses, including all taxes (€'000)	25,054	27,130	25,323	22,964	22,872
Service fees of members of the council (€'000)	150	165	187	187	167
Social security charges paid on service fees of members of the council (€'000)	50	54	62	62	55
Service fees of members of the board (€'000)	369	432	480	656	1,001***
Social security charges paid on service fees of members of the board (€'000)	122	143	158	217	330
Other indicators					
Number of interns	45	21	40	26	34
Number of incidents of discrimination against employees or human rights violations	0	0	0	0	0
Average length of employment with a group entity	7.5	7.0	6.9	8.5	8.2

* Nominal labour productivity = revenue / average number of employees per year

** Nominal labour cost efficiency = revenue / personnel expenses per year

*** Board members' service fees for 2017 included benefits of €550 thousand paid to two members of the board on the termination of their service contracts and associated social security charges of €182 thousand.

Employee satisfaction, inclusion and benefits

Continuous increase in employee satisfaction and engagement is one of our strategic priorities. We have been measuring employee satisfaction regularly with the TRI*M index (a summary engagement index) since 2010. All surveys have been conducted by the same company, Kantar Emor.

We value honest and open communication and work consistently to keep our employees well informed. A well-designed HR policy helps us be flexible and make the best possible decisions in any economic environment.

Examples from the year 2021

Adapting to the COVID-19 crisis

We were quite well adjusted to the pandemic environment in 2021: our work arrangement did not change substantially and we did not need to introduce any strict virus containment rules. The measures adopted in 2020 to prevent the spread of COVID-19 continued to work well. We were able to prevent major outbreaks of the disease at our entities. Where necessary and possible, the home office was used. The staff successfully adapted to the hybrid work arrangement which often required a high degree of flexibility.

While it is clear that our people are suffering from pandemic fatigue and frustration, we are pleased to admit that our vaccination rates are high and most of us agree on the matter.

Employee engagement events and activities

The arrangement of team building and employee engagement events in 2021 was affected by pandemic-related restrictions. Several traditional events and activities were cancelled because the need to protect employee health outweighed other considerations. In the first half of the year, traditional gatherings were replaced with online events, e.g. we offered our staff an opportunity to see the plays of Digiteater. In the second half of the year, some events were held but their format and scale was adjusted to the new circumstances.

- **Nordecon’s Summer Day in August.** A high percentage of our people participated in the event where various sports and entertainment activities were organised to build team spirit.
- **Nordecon’s Project Manager Day in November.** This time the participants included not only the project managers of our construction divisions but also all other parties directly or indirectly involved in project management. It was a conventional face-to-face event and to ensure safety the participants had to test negative for COVID-19.
- **Nordecon’s Employee Recognition Gala.** We planned to organise a gala to recognise our people but just before the event the COVID-19 situation changed in Estonia and thus a smaller gathering was held to announce the awards. The Project of the Year was the construction of the Kohtla-Järve sports hall as an example of excellent teamwork and an effectively managed and performed project.
- **NOBE** organised many **sports events** for the group’s employees which were not affected by the pandemic. In the summer, we visited Odessa and participated in the Võhandu Marathon.
- **Tariston** arranged **joint visits** to football events and Rally Estonia.

Employee satisfaction

Employee satisfaction improved slightly. This is a positive development because we have had two very challenging years. As in previous periods, our employees value highly the opportunity to participate in Nordecon’s large-scale and exciting projects. In terms of group entities, employee satisfaction was the highest at the subsidiary NOBE.

Employee inclusion and open communication

Hybrid work arrangement made direct inclusion of people harder in 2021. All management meetings were held online. At the same time, people are still used to in-person training events and meetings. Therefore, it has not been easy to encourage people to speak up in remote meetings. On the other hand, online company-wide meetings can be more conveniently attended by all project teams regardless of their location. This is reflected in the high participation rate of Teams meetings.

Mental health

We paid a lot of attention to our employees’ mental health throughout year. The changed environment, work stress, the risk of falling ill, and the need to find new ways to strike a work-life balance affected everyone in 2021. Mental health matters were discussed in relation to COVID-19 as well as more generally. Management made mental health a priority and focused on preventing difficult situations instead of reacting to them retrospectively.

We are pleased to state that we have not received any complaints about equitable and fair treatment of employees.

Performance indicators

	2021	2020	2019	2018	2017
Summary engagement index (TRI*M index)	54	54	66	61	65
Number of employees invited to participate in the survey	372	370	367	347	357
Proportion of employees who responded to the survey	87%	88%	75%	81%	81%

Employee development

Quality service is underpinned by our employees’ professional expertise and skills. Employee competence plays a major role in our success. Therefore, we systematically and consistently invest in employee training. We conduct annual performance interviews with employees to identify their development needs and involve them in their development process. During the interviews, we determine the employees’ training needs, make certification plans, and receive valuable feedback on our organisation and its management.

Examples from the year 2021

In 2021 we provided more employee training than in 2020 when training activities were largely suspended. Most of the learning took place in an online environment. On the one hand, a lot of employees were not interested in online training, which made the provision of training more challenging. On the other hand, the online environment increased flexibility and the staff who truly needed training were able to get it.

At Tariston, for example, people passed mandatory training but the company declined other online training and events. It was clear that people prefer in-person events to online ones.

Professional communication

In 2021, our construction teams could participate in a series of training sessions on contract drafting and written communication. The aim was to provide knowledge and skills in how to remain polite, friendly and concise as well as professional in difficult situations. Employees were given examples of good written communication.

Performance indicators

	2021	2020
Average number of training hours per person for managers and engineers and technical personnel (ETP)	9.5	5
Average number of training hours per person for workers	8.7	1.3
Proportion of ETP with whom performance interviews were conducted	61%	68%
Proportion of ETP who hold valid professional certificates	43%	56%

Health and safety

Construction is a sector where accidents occur more frequently than in other sectors. Therefore, keeping construction sites safe and tidy is in the interests of the employer, the employee, the business partner and the customer. Ensuring the security of the construction sites along with a safe and ergonomic work environment so as to prevent accidents and occupational diseases among employees and subcontractors, is one of the group’s main responsibilities. We also support our employees’ physical and mental health.

The group observes all applicable laws and regulations, has appointed people responsible for specific areas, has established procedures for emergency situations, conducts risk analyses, carries out health checks, trains and informs employees, prepares relevant action plans for its construction sites, supplies everyone with proper work and personal protection equipment, and analyses risk situations and accidents to prevent their recurrence.

The group’s parent and subsidiaries Nordecon Betoön OÜ and Embach Ehitus OÜ observe the requirements of international occupational health and safety management standard ISO 45001:2018.

Examples from the year 2021

Measures to prevent the spread of COVID-19

In 2021, we continued to deploy measures aimed at reducing the risk of catching COVID-19. For example, we increased the number of construction shelters where possible, enabling the crew to go indoors one by one in order to prevent the spread of the virus.

Raising awareness of proper use of safety helmets

We increased responsibility for the use of safety equipment and began to demand it from our subcontractors. Previous accidents and risk assessments indicate that a safety helmet, if worn properly, can protect against serious injuries. Therefore, it is now required that everyone on the construction site must wear a safety helmet with the chinstrap fastened. As our employees must set an example to subcontractors, we supplied them with new helmets with chinstraps. We also made safety helmets mandatory on our road construction sites.

Walk-through inspections of construction sites

In 2021, our construction sites were regularly inspected by a work environment specialist and the project manager. The walk-through inspections were often attended by heads of divisions and the chairman of the board. During the inspection, the planning, stages, safety and environmental aspects of the project were discussed. Walk-through inspections will continue as management's involvement and example are essential in ensuring safety.

Minor accidents at work

We had some minor accidents at work in 2021. After the incidents, employees were invited to a meeting where conclusions were drawn and accident prevention techniques and measures were discussed.

Documentation

The parent company began to integrate its environmental and occupational safety plans into a single comprehensive safety plan. The project will continue in 2022. We are going to include the plan in the project management environment Bauhub. In addition, the parent company's employees received training on new safety instructions.

Performance indicators

	2021	2020	2019	2018	2017
Accidents at work involving the group's workforce					
Number of work-related safety incidents	8	3	5	2	2
Number of minor accidents at work	5	6	10	8	9
Number of serious accidents at work	0	2	2	1	2
Number of fatal accidents at work	0	0	0	0	0
Accidents at work involving subcontractors' workforce					
Number of work-related safety incidents	12	35	24	18	16
Number of minor accidents at work	7	8	6	6	3
Number of serious accidents at work	2	3	1	2	3
Number of fatal accidents at work	0	0	0	0	0
Number of sick leave days taken by the group's workforce					
Total number of sick leave days taken across the group	4,301	4,743	3,686	2,467	2,564
Average number of sick leave days per employee	6.3	6.9	5.4	3.6	3.5
Proportion of sick leave days to all planned workdays*	2.5%	2.7%	2.1%	1.4%	1.4%

* The proportion of sick leave days is calculated on the basis of total working days in a calendar year in Estonia.

Accidents at work involving the group's employees resulted from negligence and inattention. Accidents at work involving subcontractors were due to the application of wrong lifting techniques, inappropriate use of tools and non-compliance with safety requirements (e.g. absence of guardrails and careless use of a ladder).

Environmental impacts

Regulations keep changing and society's environmental awareness is growing. Therefore, it is increasingly important to pay attention to the environmental aspects of construction work. We take care to comply with all regulatory environmental requirements to avoid possible sanctions and criticism from the community. We strive to avoid risks and negative environmental impacts and to keep the surrounding environment clean.

We maintain a register of the environmental impacts of our operations. Nordecon AS, Tariston AS, Nordecon Batoon OÜ, Kaurits OÜ, Embach Ehitus OÜ and Eurocon Ukraine TOV apply international environmental management standard ISO 14001. An environmental plan is drawn up for each construction project and the implementation of the plan is regularly checked and updated. Further information about our approach to the environment is provided on our website, in the description of the management system of Nordecon AS.

The most significant environmental aspects of the group's operations are:

- the materials used and the waste produced during the construction process;
- the risk of possible pollution of soil and water bodies and impacts on wildlife and vegetation;
- greenhouse gas emissions resulting from asphalt production.

Construction is a price-sensitive industry where environmental impacts can be reduced in aspects where it is economically feasible or required by the customer and additional voluntary reduction of environmental impacts is quite difficult.

There is a clear trend towards more sustainable buildings and infrastructure. This is mainly attributable to the EU energy efficiency measures as well as a rise in the importance of green thinking and customers' desire to reduce their building and infrastructure maintenance costs. The developments mainly affect the design phase. Our goal is to make sure that our team can implement more sustainable solutions in both ongoing and future projects. To this end, our project managers attend environmental awareness lectures and we advise clients who wish to find more sustainable solutions.

Examples from the year 2021

Although the reduction of environmental impacts was not our top priority in 2021, we maintained the level attained. Energy performance requirements for buildings are becoming more stringent. While this poses greater challenges, our employees have the competencies required. Customers' awareness is increasing and in projects with higher requirements additional checks are performed (e.g. a blower door test).

Environmental awareness and sustainability are our guiding principles and effective planning helps avoid additional costs. Waste disposal is regulated by contracts signed with subcontractors. In each area, small steps are taken towards sustainability – for example, cardboard and paper packaging delivered to the construction site are reused to protect the floor during painting.

In the **IKEA store project**, customers set very high quality requirements. Nordecon has been able to meet the expectations and offer the highest standard in planning and organising the work. For example, waste management has been arranged in the best possible way, the site has been kept clean and tidy, and safety requirements have been consistently and rigorously observed.

Green areas are becoming a trend in new building projects

- The Sepise 7 project – the Alma Tomingas building in Ülemiste City – emphasises greenery, which has become one of its selling points. The building has a green area created in a large indoor atrium extending through seven floors, with butterflies flying and a waterfall imitating a flowing river. The top floor has a roof terrace covered with plants. It is the most modern building in Ülemiste City, which was also registered for LEED certification. The certificate is awarded to buildings designed, constructed and operated consistent with the principles of environmental protection and sustainable development.
- Green areas have been designed for the garage rooftops of the commercial and residential complex Vektor at Pärnu mnt 137.

Wood and materials recycling

The use of wood as an input material has increased significantly. The trend is driven by the public sector but the preference for wood as a renewable resource has also reached the private sector. Recyclable materials are being used more and more, but in the end a lot depends on the customer's preferences and wishes.

A team specializing in the construction of wind farms

The group's subsidiary NOBE has a team specialising in the construction of wind farms that has gained excellent experience in Sweden. The construction of wind turbines is gaining popularity in Estonia and we wish to be a good business partner in this area. We have built the Nysäter wind farm in Sweden and are building the Targale wind farm in Latvia.

Investments in machinery and equipment

Both Tariston and Kaurits invested significantly in machinery and equipment in 2021. The goal was to replace obsolete assets. New machines and equipment are more environmentally friendly: consume less fuel and have a lower risk of leakage, which provides better protection for soil and wildlife.

Performance indicators

	2021	2020
Compliance with environmental requirements		
Number of significant notices served or fines charged by supervision authorities for breach of environmental requirements	0	0
Number of significant environmental pollution incidents caused by group entities	0	0
Number of construction or permanent operating sites located in nature reserves or high biodiversity areas	2	1
Energy consumption*		
Electricity consumed by the group's asphalt concrete plant and quarries, MWh	1,131	1,279
Fuels consumed by the group's asphalt concrete plant and quarries, thousand litres	722	1,865
Natural gas consumed by the group's asphalt concrete plant and quarries, thousand m ³	640	806
Proportion of renewable energy consumed by the group's asphalt concrete plant and quarries, %	0%	0%
Carbon emissions		
Direct carbon emissions of the group's asphalt concrete plant, tonnes of CO ₂	1,234	3,602
Carbon intensity ratio (CO ₂ emissions in tonnes ÷ asphalt concrete produced in thousands of tonnes)	15.4	17.7
Other		
Number of buildings meeting higher than usual environmental standards delivered during the year	17	13

* Group entities do not measure the energy consumption of other activities on a uniform basis

Out of the buildings delivered by group entities in 2021, nine had energy label A, seven had energy label B and one had the LEED certificate.

Materials and waste

The types and quantities of materials to be used in a construction project are usually specified in the project documentation. Regardless of that, we take measures to ensure efficient use of materials and monitor budget overruns during construction to ensure that they are reasonable. This also reduces waste. We advise our customers before the work starts and suggest alternatives, if necessary. Our goal is to offer customers more durable solutions which are ultimately more cost-effective and environmentally friendly.

In quantitative terms, the building materials that our companies use the most are concrete, aggregate (crushed stone and sand), steel and bitumen-based asphalt mixes. The use of reinforced concrete elements, glass façade solutions, and closures for openings (doors and windows) is also substantial.

In road construction, which is material intensive, we reuse as much existing subsoil as possible to reduce the need to extract new material. Where possible, asphalt millings resulting from the removal of old pavements are reused in asphalt concrete mixes or sub-bases for roads. Nearly 50% of the dust resulting from asphalt production is also used in the asphalt mix. In quarries, we use special equipment to wash fine particles out of otherwise unsuitable soil. This provides additional road construction material and reduces the need to expand quarries.

Nordecon handles and manages waste in accordance with national and local regulations. Our activities mainly cause the following types of waste: waste stone, soil, concrete, bituminous mixes, mineral waste and mixed construction and demolition waste (in small quantities also wood, metal, paper, plastic and mixed municipal waste and different packaging). Waste is sorted and handed over to waste handlers. Hazardous waste and polluted soil are handed over to appropriately licensed waste handlers.

Examples from the year 2021

Construction site logistics have changed because due to market demand, the epidemic and supply chain disruptions, more materials had to be purchased in advance in 2021. In connection with this, we have had to pay more attention to waste management as there is less space on construction sites. Although at present we have sufficient materials for ongoing projects, we expect significant challenges in sourcing materials for large-scale projects in the future.

Our policy is that the construction site must be clean and waste must be collected in the right containers. Subcontractors' practice is also improving but we have not yet reached the Nordic standard.

Work is done in accordance with an approved environmental plan, which indicates where waste will be taken. It also highlights the main environmental issues arising from the nature of the work and the activities agreed for their mitigation. In road construction, workers are always explained what it is natural soil and what is waste.

Accurate calculation of materials

We have put a lot of effort into raising our subcontractor's awareness of matters related to materials consumption. Reasonable materials costs are fixed in the contract concluded with a subcontractor and if the level is exceeded, the overrun has to be covered by the subcontractor. This motivates subcontractors to operate economically.

Recycling of materials

In road construction, materials are recovered and recycled where possible. For example, excavated soil is reused in the construction of a new road. To this end, appropriate quality tests are carried out to determine whether the recycled material is as good as new.

- During the construction of the Sillamäe traffic junction, limestone was excavated and reused. Old gravel was also of high quality and could be reused. Thus, very little waste soil was generated during the construction work. On the other hand, a lot of milled material was produced, which could not be reused in the project.
- Milled material (asphalt millings) is produced when old pavement is removed by milling and it is difficult to store. In addition to Sillamäe, the same problem occurred in the Terminal D and the Kärevere projects. It would be reasonable to reuse milled material but currently this is restricted by project terms and conditions.

Protection of soil and biodiversity

The group's wildlife, soil and water body pollution risks result mainly from road construction and the operation of asphalt plants and quarries. The risk of oil, fuel and wastewater spills and leakage is smaller.

To avoid the risk of pollution, we make sure that our employees are aware of environmental protection requirements, the machinery and equipment we use is in good working order and we apply appropriate techniques and methods. We have agreed and put in place clear action plans and measures to manage risk and resolve incidents. During construction operations we avoid unnecessary damage to vegetation and protect plants.

In carrying out asphalt paving works, we take care to avoid bitumen emulsion leakages and spills both during delivery and the paving process. Group entities are not allowed to mix contaminated soil with other waste material or to reuse it. Contaminated soil is recycled or removed in accordance with applicable requirements.

We operate quarries in accordance with requirements and, when materials need to be transported, prefer quarries closest to the construction site. Rehabilitation of quarries is carried out in consideration of the surrounding area.

Examples from the year 2021

Challenges faced in the construction of the Vão junction

- There was a protected plant on the site that was replanted.
- There was a corncrake nesting area near the site. It is a protected bird and there was a possibility that the bird would come to nest there. However, this did not prove to be a problem during the construction period.
- Radioactive graptolite argillite was found on the site, which hindered the construction work. The substance was excavated and reburied elsewhere consistent with the permission of the Environmental Board.

Kärevere-Kardla road section

During the construction of the project, special attention has been paid to the natural environment as the road section passes through the Natura 2000 nature and bird protection area. As a result, the project foresees the construction of two wildlife tunnels for big wildlife species in the vicinity of the forest lines of the protection area. One of the tunnels will have a dual purpose – to provide safe passage for wildlife and to enable the crossing of a local collector-distributor road. The project also includes building two culverts for small wildlife species and 7.7 km of wildlife fences on the sides of the road.

Energy consumption and emissions

The group's largest energy consumers are asphalt concrete plants and quarries. Although our two asphalt concrete plants have sustainable modern technology, they are the sources of our largest environmental impacts and we see them as the main opportunity for further energy saving. The emissions of the plants are measured continuously as required by the terms and conditions of the air pollution permit and regular reports are submitted to the Environmental Board.

The quantities of fuels used and carbon dioxide emitted in asphalt concrete production depend on the amount of asphalt produced during the period. We have taken steps to reduce fuel consumption and carbon dioxide emissions and will continue to do so in the future.

Temporary heating of buildings during construction work has a smaller impact. To increase energy efficiency in building construction, we try to connect to the central heating system as soon as possible to minimise the use of temporary heating solutions. We also prefer energy and fuel efficient machinery and equipment. However, we are a general contractor and do not have direct control of the energy efficiency of our subcontractors' operations.

Examples from the year 2021

In 2021, the permitted levels of pollutants were not exceeded.

Focus on energy consumption

Growth in energy costs put strong pressure on the group in 2021 and energy consumption is also important from the point of view of the environment. During the period, our project teams used, where possible, the solution where the heating unit is built first. This is the most environmentally friendly way to heat the construction site. However, sometimes the area does not have district heating and in this case rooms are mostly heated with electricity. Last year, efforts were made to reduce energy costs by switching to central heating as soon as possible and minimising the use of gas and diesel fans.

In 2021, we started to systematically analyse our energy consumption data to find areas for improvement. We are planning to sign fixed-price frame agreements with suppliers in the future.

Transition to natural gas at the Harku plant

In 2020, investments were made in the switchover of Tariston's asphalt concrete plant in Harku from oil shale-based energy to natural gas. The transition was completed in 2021. We took advantage of the opportunity to connect the plant to the gas pipeline crossing our property. This has paid off – our production operations are cleaner, emission charges are lower and there are no more odour issues. Other benefits include easier arrangement of the production process as there is no need for fuel transport, which in turn reduces the environmental impact.

Giving back to society

Nordecon has the strongest social impact through well-planned and safe construction processes and high-quality end-results: buildings and infrastructure assets. However, we also contribute to the improvement of social welfare by supporting, first and foremost, the development of the construction industry, the engineering profession and young talent. Nordecon works closely with professional associations, universities and professional qualification authorities in all matters related to the construction business, making proposals for the regulation of the construction industry, participating in joint projects and exchanging information. Promoting the engineering profession is particularly important in order to make the construction business more attractive for young talent and ensure that new construction engineers will continue to enter the labour market. We participate in career fairs, offer internship opportunities to students and support various activities aimed at young people.

Examples from the year 2021

Development of the construction industry

- We contributed to the preparation of the strategy document *Long-Term View on Construction 2035*. The process was led by the Ministry of Economic Affairs and Communications and all stakeholders collaborated closely. One of the topics reviewed was the role of the state as a customer during the periods of low and high demand. The strategy document was completed in 2021.
- We participated actively in workshops and training programmes on the Integrated Project Delivery (IPD) model. IPD improves the quality of cooperation between the parties to a construction project and enables fairer distribution of construction risk. In Scandinavia, the use of IPD is standard practice, but in Estonia it is still a new approach. The aim is to reach a pilot project and test the new model in the near term.

- We helped review the new construction design documents standard EVS 932 and worked to make sure that the use of BIM would be included in the standard.
- We contributed to wider adoption of BIM. Nordecon helped the Transport Administration draft new procurement terms and conditions, recommending that BIM should be included in the procurement conditions. The software has been upgraded, but not its user-friendliness. There are also problems with processing capacity, as computers cannot handle more complex models and thus get the most out of BIM. It will be a long journey before the use of BIM becomes standard practice in the construction sector. The training of specialists takes time, systems evolve and computers' processing capacity gradually increases.

Activities aimed at new talent and promoting the engineering profession

- In 2021, the Nordecon group signed a five-year cooperation agreement with Tallinn University of Technology. The agreement provides a basis for the group's substantive cooperation with the university which plays a key role in educating Estonian civil engineers. Nordecon also finances the university to create better opportunities for civil engineering students. Students are offered internships and the group collaborates with the university in construction-related research.
- The group supported initiatives and activities aimed at the development of digital construction.
 - We contributed to the activities of the Digital Construction Cluster.
 - Nordecon was the main sponsor of the Digital Construction 2021 Hackathon, sharing its knowledge and participating in the work of the jury.
 - We were closely involved in the BuildIT and Enginaator engineering competitions organised by students. Nordecon helped invent tasks and carry out the competition, which is aimed at young engineers. Our employees were inspirational speakers and participated in the work of the jury.
 - We participated in the organization of BIMSummit Estonia. It is the largest BIM and digital construction conference in Estonia. BIMSummit Infra 2021 for the first time reviewed the development of digital construction in the field of infrastructure in Estonia and the world.

Partner to the Green Tiger

The group's subsidiary NOBE is a partner to the Green Tiger. The Green Tiger is an organisation for sustainable companies that has created a partnership platform for raising environmental awareness and creating a basis for a balanced economy. The mission of the organisation is to build cross-sectoral public commitment to achieving a balanced economy and to identify and test environmentally friendly practices in every sector. Stakeholders discuss how to introduce Green Tiger issues into laws and regulations. It is important for us to participate in the dialogue.

Other support and donations

From 2021, we mainly support areas and activities which are related to our core business and generally do not participate in large-scale support projects in other areas.

- In 2021, Nordecon became a supporter of the Estonian Association of Civil Engineers.
- The group participated in the Noor Ehitaja (Young Builder) campaign organised by the Estonian Association of Construction Entrepreneurs to promote construction jobs. Nordecon helped create valuable content aimed at young people.
- We supported sports for young people, education and culture: Karl-Martin Rammo (KMR Sailing), Saskia Alusalu (OÜ Ulasula), the National Defence Promotion Foundation, Nõmme Private Education Foundation, Tallinn City Theatre.
- The group supported local communities: Tariston AS supported equestrian events on the island of Hiiumaa and participated in the organisation of amateur rallies and beach volleyball competitions. Embach Ehitus OÜ supported Tähtvere Sports Park, the organisation of the ski marathons Haanja Maraton and Tartu Maratoni Klassik, and charity foundation Minu Unistuste Päev (My Dream Day).

Membership

- **Group companies belong to the following organisations:**
 - Estonian Chamber of Commerce and Industry
 - Estonian Association of Construction Entrepreneurs
 - Estonian Infra Construction Association (formerly Estonian Asphalt Pavement Association)
 - Estonian Concrete Association
 - Estonian Water Works Association
 - Estonian Human Resource Management Association
- **Several of the group’s employees belong to professional associations for individuals such as:**
 - Estonian Association of Civil Engineers
 - Association of Estonian Surveyors
 - Estonian Mining Society
 - Estonian Society for Electrical Power Engineering
 - Estonian Society of Heating and Ventilation Engineers
 - Estonian Association of Water Supply and Wastewater Engineers
- **Nordecon’s employees participate in the following committees and working groups (projects):**
 - Estonian Qualifications Authority (promoting the engineering profession and further engineering training, developing relevant standards)
 - Council and Qualifications Board of the Estonian Association of Civil Engineers
 - Qualifications committee of the Estonian Association of Construction Entrepreneurs
 - Qualifications committee of vocational schools providing construction education
 - Digital Construction Cluster

Performance indicators

	2021	2020	2019	2018	2017
Donations and support payments made by the group (€'000)	232	240	290	298	300

Governance

Members of the council and board of Nordecon AS

Council

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

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

An engineer with a diploma in industrial and civil engineering from Tallinn Polytechnic Institute (today: Tallinn University of Technology), Toomas is one of the founders of the Nordecon group and has been involved in the group's activities through its board and council for 33 years. Besides construction companies, he has held senior positions at various other enterprises (Tallinna Kaubamaja Grupp AS, AS E-Betoonement, OÜ Vääkivi, 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 26 years he has led the Estonian Chamber of Commerce and Industry and for many years has participated in the work of the professional association of Estonian construction enterprises. As chairman of the Chamber of Commerce, he was actively involved in preparatory activities for Estonia's accession to the EU and the euro area. Before Estonia joined the EU, Toomas 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 was chairman of the Board of Governors of Tallinn University of Technology. He is a lieutenant colonel of the Estonian Defence Forces (in reserve), chairman of the Board of Elders of the Estonian Reserve Officers' Association and vice president for the NATO-affiliated Interallied Confederation of Reserve Officers (CIOR). He has been awarded the Order of the White Star of the Republic of Estonia (Fifth Class, Third Class and First Class) and he has received various awards from the Estonian Defence Forces, the Estonian National Defence League and other state and non-profit organisations. He has also received state awards from several foreign countries. He has an honorary doctorate from Tallinn University of Technology.

Membership in the governing bodies of other organisations: OÜ Luman ja Pojad and its subsidiaries and associates (including AS Nordic Contractors, chairman of the board), Estonian Chamber of Commerce and Industry (chairman of the board), Nõmme Private Education Foundation, Foundation for Promoting National Defence, Estonian Shooting Sport Federation (vice-president), 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, Arealis Holding AS and Nordecon AS), TL Holdinginvesteringud OÜ

Andri Hõbemägi – representative of AS Nordic Contractors

Andri is an economics graduate of Tallinn University of Technology. From 1993 to 2001 he worked for AS Hansapank (later renamed Swedbank AS). From 2001 to 2002 he was executive manager of football club FC Flora. In 2002 he became chief financial officer of AS Eesti Ehitus (later renamed Nordecon AS). During his term of office the company's shares were listed on the Tallinn Stock Exchange. Currently he is chief analyst with AS Nordic Contractors, the controlling shareholder in Nordecon AS. His community activities are aimed at the development of regional education. Andri has been a member of the audit committee of Nordecon AS since 2010.

Membership in the governing bodies of other organisations: Subsidiaries and associates of AS Nordic Contractors (council), Toidutark OÜ (board), Silberberg und Frau OÜ (board), Pelgulinna Education Society, Nõmme Private Education Foundation

Interests (exceeding 5%) in other companies: Silberberg und Frau OÜ

Vello Kahro – independent member (as per the Corporate Governance Code of the Tallinn Stock Exchange)

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

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

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

Sandor Liive – independent member (as per the Corporate Governance Code of the Tallinn Stock Exchange)
Sandor has graduated from Tallinn University of Technology, Faculty of Economics, with higher education in economics. He has studied management at the IMD, INSEAD and Stanford business schools. From 1992 to 1995, he was on the board of Uus Maa OÜ. From 1995 to 1998 he was head of finance department and chief financial officer and from 1996 to 1998 also a member of the board of Tallinna Sadam AS. From 1998, Sandor worked for Eesti Energia AS, first as chief financial officer and a member of the board and later, from 2005 to 2014, as chairman of the board. He has been the chairman of the audit committee of Nordecon AS since 2015.

Membership in the governing bodies of other organisations: RB Rail AS (council), OÜ Inventor (board), OÜ FinEst Bay Area (board), commercial association Tuleva (council), Fermi Energia OÜ (council), Gridio 2.0 OÜ (board)

Interests (exceeding 5%) in other companies: OÜ Inventor, OÜ Callisto Group, OÜ FinEst Bay Area, Fermi Energia OÜ, Gridio 2.0 OÜ

Andre Luman – representative of AS Nordic Contractors

Andre has graduated from Tallinn University of Technology with an MSc *cum laude* in industrial and civil engineering and from the University of Tartu with a BA *cum laude* in psychology. He has worked for entities of Nordecon AS and its parent AS Nordic Contractors since 2012. From 2012 to 2016, Andre worked as a risk analyst at Nordecon AS. From 2013 to 2016, he was a member of the council and since 2016 he has been the chairman of the council of AS Nordic Contractors. Andre has been a member of the boards of AS Arealis and the subsidiaries of the Arealis group since 2019. He has been on the audit committee of Nordecon AS since 2020.

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

Interests (exceeding 5%) in other companies: Võim OÜ (board)

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.

Gerd Müller, chairman of the board

Gerd has been the chairman of the board of Nordecon AS since 8 January 2018. He is responsible for the overall management of the parent company and the group. Previously Gerd worked in banking and payment services: at Hansapank (later renamed Swedbank) as head of different business lines and a member of the board (1992-2001), EuroProcessing International (later renamed First Data) as regional manager (2002-2008), TAG Systems Finland (later renamed EVRY Card Services) as head of the Baltic region (2009-2015) and Nordea's Baltic development director and chief executive of the Estonian branch (2015-2017). Gerd has graduated from the Faculty of Economics of Tallinn University of Technology.

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

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

Priit Luman, member of the board

Priit has been a member of the board of Nordecon AS since 1 May 2017. He is responsible for the company's foreign operations. He has worked in different construction management positions at companies of the Nordecon group since 2006. In 2013 he became director of the Building division. Priit graduated from Tallinn University of Technology in 2010 with an MSc *cum laude* in industrial and civil engineering and completed the EMBA programme of Aalto University in 2018. Priit holds the qualification of Chartered Civil Engineer, level 8, awarded by the Estonian Association of Civil Engineers.

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

Interests (over 5%) in other companies: none

Maret Tambek, member of the board

Maret has been working for the group since 2007 when she joined Nordecon Infra AS as the entity's chief financial officer. In spring 2010 she became the group's chief accountant and since July 2014 she has been the group's chief financial officer. Previously Maret worked for 11 years as an auditor at KPMG Baltics OÜ. From 1992 to 1996 she was a specialist for the Estonian Central Bank. Maret graduated from Tallinn Polytechnic Institute (today: Tallinn University of Technology), the department of production management and planning. Maret is a certified public accountant and a member of the Estonian Association of Auditors. On the board, since 1 May 2017, Maret Tambek is responsible for Nordecon AS's financial management and support services.

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

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

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

Ethical business practices

Honest and ethical behaviour and compliance with all applicable laws and regulations are part of Nordecon's organisational culture. The group has zero tolerance for conflicts of interest, corrupt behaviour and dishonest competition. Open and honest communication with all stakeholder groups is a priority. The group believes that ethical business operations and responsible tax behaviour are important for the development of the entire construction sector.

The group defines corruption as the abuse or misuse of power or information entrusted to a person in connection with their office with the intention to acquire a personal benefit, which causes direct damage to the group's reputation and business activity as well as the construction sector as a whole. The group does not make gifts or offer any other benefits to customers with a view to exerting influence and thus gaining an unfair advantage.

In order to avoid corruption and prevent questionable situations, the group has established procedures and policies that regulate the performance of procurement tenders, use of company property, keeping of trade secrets, handling of inside information and honest and ethical conduct. The group's intranet includes an anonymous hotline that employees can use to report concerns about corruption, breaches of honest and ethical business practices as well as unfair treatment.

The group cooperates with the Tax and Customs Board, the Labour Inspectorate, the Police and Border Guard Board and the Environmental Inspectorate that inspect the group's construction sites. In projects, where the group is the general contractor, it makes sure that authorities have access to its subcontractors and their employees but the group does not take responsibility for their legal and regulatory compliance.

As a listed company, the group has rules which govern the handling and disclosure of inside information. All employees who have access to inside information are required to sign a confirmation, affirming their compliance with the rules. The parent of the group also observes the information disclosure restrictions arising from the facility security clearance to process state secrets.

The group's management is not aware of any incidents of corruption in 2021 and 2020, including incidents involving group entities or employees or incidents involving subcontractors or customers, which would have required a response from the group. During the periods the internal hotline did not receive any complaints (about suspected corruption, unethical or unfair behaviour or non-compliance with laws or regulations that would have required investigation) and none of the group entities was found guilty of a serious non-compliance with laws or regulations. The group did not make a donation to any political party in 2021.

Corporate governance report

Nordecon AS has observed the Corporate Governance Code (CGC) promulgated by the Nasdaq Tallinn Stock Exchange since the flotation of its shares on the Nasdaq Tallinn Stock Exchange on 18 May 2006. This report provides an overview of the governance of Nordecon AS in 2021 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 2021, 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 the 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 would 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 2021, 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.

All shares issued by Nordecon AS are registered ordinary shares. A shareholder may not demand the 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 the 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 2021, Nordecon AS complied with the subsections of section 1.1 of CGC that relate to shareholder rights.

Calling of a general meeting and information to be published

In 2021, the board of Nordecon AS proposed to the shareholders that the resolutions of the general meeting be adopted without calling a meeting. Shareholders had to cast their votes by 9 a.m. on 1 June 2021.

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 Tallinn Stock Exchange and on the company's website. The notice includes information about where the annual report and other documents relevant to 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 about 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 2021, 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.

As a rule, a general meeting is attended by all members of the board, the chairman of the council and, where possible, members of the council and at least one of the auditors. A general meeting is also attended by a candidate for a member of the council if the candidate has not been a member of the council before and the auditor candidate.

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

In 2021, Nordecon AS complied with the subsections of section 1.3 of CGC that relate to the conduct of a general meeting.

Board

Responsibilities of the board

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

In order to ensure effective 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 the forms and instructions for the preparation of financial statements required for making management decisions;
- ensures the functioning of the control and reporting systems.

The board observes the 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 all applicable laws and regulations.

The board and council of Nordecon AS exchanged information in 2021 in accordance with relevant requirements. The board informed the council of the group's performance and financial position on a regular basis. In 2021, Nordecon AS complied with the subsections of section 2.1 of CGC that relate to the responsibilities of the board.

Composition and remuneration of the board

Composition of the board

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

The board or the council determines the area of responsibility of each member of the board, specifying the duties and powers of each member of the board in as much detail as possible, and outlines the basis 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 2021, the board had the following members:

	Position/area of responsibility	Beginning of term of office	End of term of office
Gerd Müller	Chairman of the Board Overall management of Nordecon AS and the group	8 January 2018	7 January 2024
Priit Luman	Member of the Board Construction operations and foreign markets	1 May 2017	30 April 2023
Maret Tambek	Member of the Board Financial management and support services	1 May 2017	30 April 2023

Remuneration of the board

Information about the remuneration of the board is disclosed in the *Remuneration report*.

In 2021, Nordecon AS complied with the subsections of section 2.2 of CGC, that relate to the composition and remuneration of the board.

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 to engage 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 to engage 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 should be treated as a conflict of interest.

A member of the board or an employee may not demand or accept cash 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 2021, 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 related to the company's accounting, auditing, risk management, internal control, supervision, budgeting and legal compliance. Further information on the audit committee is available on the company's website.

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

The work of the council is organised by the chairman. The chairman of the council determines the agenda of council meetings, chairs council meetings, monitors the effectiveness of the work of the council, organises swift delivery of information to council members, ensures that council members have sufficient time for preparing a resolution and reviewing the information received and represents the company in relations with the company's board. The council had four meetings in 2021. In addition, on one occasion resolutions were adopted electronically. Meetings and the electronic voting were attended by all members of the council.

In 2021, 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 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.

The general meeting decides the remuneration of the council 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 work of the council, shareholders may take into account the specific features of the work of the chairman of the council.

According to a resolution adopted by the general meeting on 24 May 2017, from 1 July 2017 the chairman's basic monthly service fee is €9,000, the vice-chairman's basic monthly service fee is €3,000 and the basic monthly service fee of other council members is €1,200. In addition, based on a resolution adopted by the general meeting on 28 May 2012, the company has created a performance-related pay system for the chairman and vice-chairman of the council. Performance-related pay is linked to the achievement of Nordecon AS's targets for the financial year and 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 of the chairman of the council and the 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.

The annual general meeting that convened on 20 May 2020 decided to reduce the remuneration of the members of the council by 20% and set the chairman's basic monthly service fee at €7,200, the vice-chairman's basic monthly service fee at €2,400 and other council members' basic monthly service fee at €960, effective from 1 June 2020.

The service fees of the members of the council of Nordecon AS for 2021 amounted to €150 thousand and associated social security charges totalled €50 thousand (2020: €165 thousand and €54 thousand, respectively).

In 2021, the council had the following members:

Name	Position/area of responsibility	Beginning of term of office	End of term of office	Remuneration 2021 (€'000)	Remuneration 2020 (€'000)
Toomas Luman	Chairman of the Council, representative of AS Nordic Contractors	9 January 2006	20 May 2025	86	95
Andri Hõbemägi	Vice-chairman of the Council, representative of AS Nordic Contractors	25 May 2013	24 May 2023	28	31
Vello Kahro	Member of the Council, independent	20 May 2015	20 May 2025	12	13
Sandor Liive	Member of the Council, independent	20 May 2015	20 May 2025	12	13
Andre Luman	Member of the Council, representative of AS Nordic Contractors	20 May 2020	20 February 2025	12	7
Meelis Milder	Member of the Council, independent	9 January 2006	20 May 2020	-	6

In 2021, 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 have to 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.

In 2021, 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 continuous and effective information exchange. Members of the board participate in council meetings that take place at least quarterly for reviewing the company's financial performance. In addition, as a rule, the chairman of the board is invited to other council meetings that examine matters related to the company's operation.

In 2021, the board and the council worked closely in monitoring the implementation of the company's development plan and the achievement of the company's strategic objectives. 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 the 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 promptly 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 of movement of information, particularly price-sensitive information.

In 2021, 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.

Application of the diversity policy

Under subsection 4 of section 24² of the Estonian Accounting Act, a large undertaking whose securities that carry voting rights have been admitted for trading on a regulated securities market of Estonia or another contracting state (party to the EEA agreement) has to describe in its corporate governance report the diversity policy applied to its board and higher governing body and its results during the reporting period. If no diversity policy has been applied during the period, the reasons for this should be explained in the corporate governance report.

The group did not apply a diversity policy in 2021 because both managers and employees are selected based on the group's interests and people are hired and appointed based on their education, skills and prior work experience. However, the group observes the policy of not discriminating against any candidate based on their gender or on any other basis.

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 strives to treat all shareholders as equally and fairly as possible and to communicate all significant events without 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 Tallinn Stock Exchange and the company's website 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 Tallinn Stock Exchange and the provisions of the Estonian Securities Act. In 2021, the company's threshold for notifying of significant construction contracts was €3.2 million. Nordecon AS made 38 stock exchange announcements in 2021, which were released concurrently via the information system of the Nasdaq 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 (including the release of the annual report, interim reports and the notice of the annual general meeting), on its website and in a separate announcement in the information system of the stock exchange. In addition, the company has made available on its website information about 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.

There were no meetings with investors or analysts in 2021.

In 2021, Nordecon AS complied with chapter 5 of CGC that relates to disclosure of information.

Financial reporting and auditing

Financial reporting

The 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 11) and transactions with shareholders (note 36).

In 2021, 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 of the company's council that approved the annual report as required by subsection 6.1.1 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 the 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. The fees Nordecon AS paid to the auditors in 2021 totalled €64 thousand.

The auditor provided the audit committee formed by the council with a written memorandum on the company's audit of 2021, the auditor's findings and other significant matters that were discussed with the board.

In 2021, Nordecon AS complied with the subsections of section 6.2 of CGC that relate to auditing.

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 Tallinn, Baltic Main List
Industry	Construction and engineering
Indexes	OMX Baltic Industrials GI; OMX Baltic Industrials PI; OMX Baltic Construction & Materials GI; OMX Baltic Construction & Materials PI; OMX_Baltic_GI; OMX_Baltic_PI; OMX Tallinn_GI

*In connection with Estonia's accession to the euro area on 1 January 2011 and based on amendments to the Estonian Commercial Code which took effect on 1 July 2010 as well as a resolution adopted by the annual general meeting of Nordecon AS in May 2011, the company's share capital was converted from EEK 307,567,280 (Estonian kroons) to €19,657,131.9. 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, increasing share capital by €1,034,573.01 to €20,691,704.91, 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 €	2021	2020	2019	2018	2017
Open	1.15	1.04	0.91	1.25	1.34
High	1.84	1.21	1.09	1.29	1.46
Average	1.29	1.04	0.99	1.10	1.30
Low	1.08	0.78	0.89	0.89	1.20
Last closing price	1.20	1.14	1.03	0.89	1.23
Traded volume (number of securities traded)	7,037,117	6,021,881	3,254,930	1,707,399	1,977,849
Turnover, € million	9.32	5.99	3.24	1.93	2.60
Listed volume (31 December), thousand	32,375	32,375	32,375	32,375	32,375
Market capitalisation (31 December), € million	38.85	36.91	33.35	28.81	39.82

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

Ratio	2021	2020	2019	2018	2017
P/E	(6.0)	14.6	9.6	8.3	27.4
P/B	1.5	1.1	1.1	0.9	1.1

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

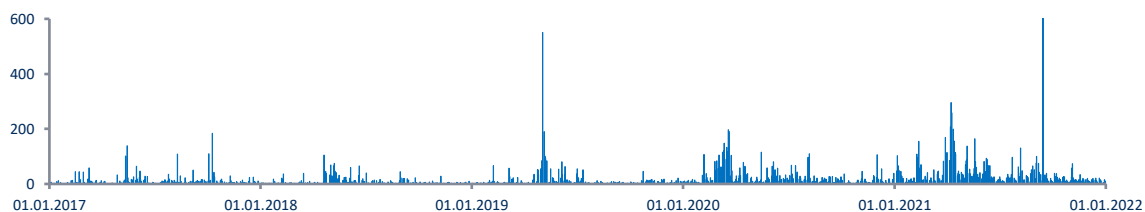
P/B = the period's last closing price of the share / (equity attributable to owners of the parent / number of shares outstanding)

Movements in the price and turnover of the Nordecon AS share in 2017-2021

Movements in share price, €



Daily turnover, €'000



Movement of the share price compared with the OMX Tallinn index in 2017-2021



Index/equity	1 January 2017*	31 December 2021	+/-%
OMX Tallinn	1,075.50	2,001.03	86.06%
NCN1T	€1.33	€1.20	(9.77)%

* Closing price on the Nasdaq Tallinn Stock Exchange at 31 December 2016.

Shareholder structure

Largest shareholders in Nordecon AS at 31 December 2021

Shareholder	Number of shares	Ownership interest (%)
AS Nordic Contractors	16,933,515	52.30
Luksusjaht AS	4,278,403	13.22
Toomas Luman	651,500	2.01
Olegs Radcenko	584,867	1.81
SEB Pank AS clients	425,000	1.31
Lembit Talpsepp	364,239	1.13
Mati Kalme	271,000	0.84
SEB Life and Pension Baltic SE Estonian branch	255,000	0.79
Genadi Bulatov	250,600	0.77
Svenska Handelsbanken clients	210,556	0.65

Shareholder structure of Nordecon AS at 31 December 2021

	Number of shareholders	Ownership interest (%)
Shareholders with interest exceeding 5%	2	65.52
Shareholders with interest from 1% to 5%	4	6.26
Shareholders with interest below 1%	6,199	25.60
Holder of own (treasury) shares	1	2.62
Total	6,206	100

Shareholder structure by shareholder category at 31 December 2021

Shareholders by business line and legal form	Number of shares	Ownership interest (%)
Companies	23,468,960	72.49
Individuals	7,569,799	23.38
Financial institutions (banks, investment funds)	1,081,724	3.34
Insurance companies	255,000	0.79
Total	32,375,483	100

Shares controlled by members of the council of Nordecon AS at 31 December 2021

Council member		Number of shares	Ownership interest (%)
Toomas Luman (AS Nordic Contractors, OÜ Luman ja Pojad)*	Chairman of the Council	17,612,165	54.40
Andri Hõbemägi	Member of the Council	50,000	0.15
Vello Kahro	Member of the Council	10,000	0.03
Sandor Liive	Member of the Council	0	0.00
Andre Luman	Member of the Council	25,000	0.08
Total		17,697,165	54.66

* Companies controlled by the individual

Shares controlled by members of the board of Nordecon AS at 31 December 2021

Board member		Number of shares	Ownership interest (%)
Gerd Müller	Chairman of the Board	0	0.00
Priit Luman	Member of the Board	7,000	0.02
Maret Tambek	Member of the Board	0	0.00
Total		7,000	0.02

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 to 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 granted options for acquiring up to 1,618 thousand shares in Nordecon AS. An option could be exercised when three years had passed since the signature of the option agreement but not before the general meeting had approved the company's annual report for 2016.

To satisfy the terms and conditions of the option plan, in July 2014 Nordecon AS issued a total of 1,618 thousand new shares with a total cost of €1,582 thousand, increasing share capital by €1,035 thousand to €20,692 thousand, and acquired the same number of own (treasury) shares at the same price.

The annual general meeting that convened on 24 May 2017 approved some changes to the option plan. The term for exercising a share option was extended. An option could be exercised within 15 months after the general meeting had approved Nordecon AS's annual report for 2016. In addition, the conditions for exercising the options granted to persons who at the grant date were members of the board were amended.

The annual general meeting that convened on 23 May 2018 adopted some amendments to the share option plan which grant Nordecon AS's chairman of the board the right to acquire up to 200,000 shares and each member of the board the right to acquire up to 129,500 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 general meeting has approved the company's annual report for 2020. Exercise of the options is linked to the achievement of the group's EBITDA target for 2020 (from €6,083 thousand to €12,167 thousand). In connection with the achievement of the EBITDA target for 2020, the members of the board of Nordecon AS are entitled to acquire 69,408 shares in total under the share option plan.

At 31 December 2021, options for the acquisition of 229,857 shares had been exercised, options for the acquisition of 1,299,907 shares had expired and options for the acquisition of 88,991 shares were still exercisable.

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

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

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

Dividends distributed by Nordecon AS in previous years:

Year of pay-out	Total dividend paid €'000	Number of shares, thousand	Dividend per share €	Dividend pay-out ratio *
2017	1,384	30,913	0.045	45.5%
2018	1,859	31,529	0.06	133.9%
2019	1,891	31,529	0.06	55.9%
2020	0	31,529	0	0
2021	3,778	31,529	0.12	65%

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

The extraordinary general meeting held on 22 December 2020 decided to distribute a dividend of €0.06 per share from retained earnings as at 31 December 2019. The total dividend amounted to €1,889 thousand and it was paid out to the shareholders on 23 March 2021. The extraordinary general meeting held on 1 June 2021 decided to distribute a dividend of €0.06 per share from retained earnings as at 31 December 2020. The total dividend amounted to €1,889 thousand and it was paid out to the shareholders on 29 September 2021. No dividend was paid to Nordecon AS for own shares held by the company.

Remuneration report

The remuneration report contains information about the remuneration and other benefits provided to the board of Nordecon AS in 2021.

The company's remuneration policy is aimed at creating and maintaining a fair, motivating, competitive, transparent and lawful remuneration system as well as attracting and retaining professional and competent executive staff. The company's remuneration system supports and rewards for performance improvement and the creation of a work environment that prioritises the achievement of business goals. The remuneration of the members of the board is determined by taking into account their tasks, responsibilities and decision-making powers, including the relevance of their decisions to the company's operations. The remuneration additionally depends on the group's financial position and current performance. The remuneration of the members of the board is decided by the company's council. In determining remuneration, the council also considers criteria such as the company's measurable performance, short- and long-term goals and non-monetary performance.

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 incentives:

- Performance-related pay for achieving the targets set for the financial year. Depending on the board member's area of responsibility, the basis for performance-related pay is consolidated EBITDA (operating profit plus amortisation and depreciation expense) or the EBITDA for a market/entity of the group 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 up to six-fold and for the chairman of the board up to 12-fold average monthly service fee together with performance-related pay). The payment of benefits is justified because board members are subject to a prohibition on competition which restricts their activities during the period for which the benefits are paid.
- Benefits payable on the expiry of the service contract (for a member of the board up to six-fold and for the chairman of the board up to 12-fold average monthly service fee together with performance-related pay). A board member is not eligible for the 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 has breached the service contract, the board member's activities have caused direct damage to the company or the parties agree to extend a board member's service contract for another term of office.

Share options

The annual general meeting of 2018 amended the share option plan for members of the board. In the framework of the share option plan, the chairman of the board may acquire up to 200,000 shares and each member of the board may acquire up to 129,500 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 2020 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 the achievement of the group's EBITDA target for 2020 (from €6,083 thousand to €12,167 thousand).

In connection with the achievement of the EBITDA target for 2020, the members of the board of Nordecon AS are entitled to acquire 69,408 shares in total under the share option plan.

Service fees of the board in 2021

The service fees and social security charges of the board of Nordecon AS for 2021 totalled €369 thousand and €122 thousand, respectively (2020: €432 thousand and €143 thousand, respectively).

€'000	Service fee	Other benefits	Performance-related pay	Total remuneration
Gerd Müller (chairman of the board)	168	15	0	183
Maret Tambek (member of the board)	111	12	0	123
Priit Luman (member of the board)	90	12	0	102

Other benefits eligible to the members of the board include the use of a company car, telephone compensation, additional paid leave, training, etc. Other benefits of 2021 comprise company car, telephone and training expenses.

Service fees of the board, average annual remuneration of parent's full-time employees and the group's EBITDA

€'000	2021	2020	2019	2018	2017
Service fees of the board*					
Gerd Müller (chairman of the board)	168	169	176	164	-
Maret Tambek (member of the board)	111	109	103	98	64
Priit Luman (member of the board)	90	93	98	87	56
Ando Voogma (member of the board)	-	61	103	98	40
Erkki Suurorg (member of the board)	-	-	-	29	120
Avo Ambur (member of the board)	-	-	-	-	68
Jaano Vink (chairman of the board)	-	-	-	-	78
Performance-related pay of the board					
Jaano Vink	-	-	-	-	62
Avo Ambur	-	-	-	-	43
Erkki Suurorg	-	-	-	-	43
Termination and non-competition benefits of the board					
Erkki Suurorg	-	-	-	180	-
Jaano Vink	-	-	-	-	356
Avo Ambur	-	-	-	-	190
Board member fees for managing a subsidiary of the group					
Maret Tambek	0.09	0.09	0.09	0.09	0.09
Group EBITDA	(797)	7,003	7,311	6,021	3,123
Average annual remuneration of full-time employees	29	30	26	25	22

* Terms of office of members of the board:

<i>Gerd Müller</i>	<i>8 January 2018 – 7 January 2024</i>
<i>Maret Tambek</i>	<i>1 May 2017 – 30 April 2023</i>
<i>Priit Luman</i>	<i>1 May 2017 – 30 April 2023</i>
<i>Ando Voogma</i>	<i>1 August 2017 – 31 July 2020</i>
<i>Jaano Vink</i>	<i>1 August 2002 – 31 July 2017</i>
<i>Aavo Ambur</i>	<i>2 December 2002 – 31 July 2017</i>
<i>Erkki Suurorg</i>	<i>1 December 2005 – 31 March 2018</i>

The company does not apply the option of recovering variable pay.

The remuneration system of the members of the board has been applied without exception.

Management's confirmation and signatures

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

Gerd Müller	Chairman of the Board	<i>signed digitally</i>	20 April 2022
Priit Luman	Member of the Board	<i>signed digitally</i>	20 April 2022
Maret Tambek	Member of the Board	<i>signed digitally</i>	20 April 2022

Consolidated financial statements

Consolidated statement of financial position

€'000	Note	31 December 2021	31 December
ASSETS			
Current assets			
Cash and cash equivalents	7	9,031	12,576
Trade and other receivables	8	48,091	50,029
Prepayments	9	4,947	2,678
Inventories	10	25,637	22,454
Total current assets		87,706	87,737
Non-current assets			
Other investments		76	26
Trade and other receivables	8	9,206	8,654
Investment property	12	5,599	5,639
Property, plant and equipment	13	17,433	18,053
Intangible assets	14	15,051	14,966
Total non-current assets		47,365	47,338
TOTAL ASSETS		135,071	135,075
LIABILITIES			
Current liabilities			
Borrowings	15	16,289	18,508
Trade payables	17	57,324	47,390
Other payables	18	7,459	11,814
Deferred income	19	11,539	7,738
Provisions	20	707	1,059
Total current liabilities		93,318	86,509
Non-current liabilities			
Borrowings	15	7,405	7,352
Trade payables	17	4,178	2,332
Provisions	20	2,044	1,647
Total non-current liabilities		13,627	11,331
TOTAL LIABILITIES		106,945	97,840
EQUITY			
Share capital	21	14,379	14,379
Own (treasury) shares		(660)	(660)
Share premium		635	635
Statutory capital reserve	21	2,554	2,554
Translation reserve	21	1,948	2,423
Retained earnings		6,341	14,543
Total equity attributable to owners of the parent		25,197	33,874
Non-controlling interests		2,929	3,361
TOTAL EQUITY		28,126	37,235
TOTAL LIABILITIES AND EQUITY		135,071	135,075

The notes on pages 60-116 are an integral part of these consolidated financial statements.

Consolidated statement of comprehensive income

€'000	Note	2021	2020
Revenue	24	288,534	296,082
Cost of sales	28	(284,513)	(285,086)
Gross profit		4,021	10,996
Marketing and distribution expenses		(559)	(528)
Administrative expenses	29	(6,053)	(7,073)
Other operating income	30	519	453
Other operating expenses	30	(2,264)	(273)
Operating profit (loss)		(4,336)	3,575
Finance income	31	958	2,995
Finance costs	31	(1,320)	(2,678)
Net finance income (costs)		(362)	317
Share of profit of equity-accounted investees	11	0	734
Profit (loss) before income tax		(4,698)	4,626
Income tax expense	32	(808)	(508)
Profit (loss) for the year		(5,506)	4,118
Other comprehensive income (expense)			
Items that may be reclassified subsequently to profit or loss			
Exchange differences on translating foreign operations		(475)	1,254
Total other comprehensive income (expense)		(475)	1,254
TOTAL COMPREHENSIVE INCOME (EXPENSE) FOR THE YEAR		(5,981)	5,372
Profit (loss) attributable to:			
- Owners of the parent	22	(6,310)	2,466
- Non-controlling interests		804	1,652
Total profit (loss) for the year		(5,506)	4,118
Total comprehensive income (expense) attributable to:			
- Owners of the parent		(6,785)	3,720
- Non-controlling interests		804	1,652
Total comprehensive income (expense) for the year		(5,981)	5,372
Earnings per share attributable to owners of the parent:			
Basic earnings per share (€)	22	(0.20)	0.08
Diluted earnings per share (€)	22	(0.20)	0.08

The notes on pages 60-116 are an integral part of these consolidated financial statements.

Consolidated statement of cash flows

€'000	Note	2021	2020
Cash flows from operating activities			
Cash receipts from customers ¹		352,378	345,552
Cash paid to suppliers ²		(310,183)	(305,500)
VAT paid		(8,140)	(9,909)
Cash paid to and for employees		(25,893)	(27,409)
Income tax paid		(797)	(291)
Net cash from operating activities		7,365	2,443
Cash flows from investing activities			
Paid on acquisition of property, plant and equipment		(232)	(254)
Paid on acquisition of intangible assets		(19)	(17)
Proceeds from sale of property, plant and equipment		489	332
Cash received on acquisition of a subsidiary		0	3,605
Sale of an investment in an associate		0	3,596
Loans provided		(34)	(17)
Repayments of loans provided		96	44
Dividends received		0	974
Interest received		12	23
Net cash from investing activities		312	8,286
Cash flows from financing activities			
Proceeds from loans received	15	1,922	2,026
Repayments of loans received	15	(3,766)	(2,629)
Payments of lease liabilities	15, 16	(3,318)	(3,086)
Interest paid		(1,051)	(927)
Dividends paid		(5,000)	(472)
Other payments		(12)	(77)
Net cash used in financing activities		(11,225)	(5,165)
Net cash flow		(3,548)	5,564
Cash and cash equivalents at beginning of year			
Effect of movements in foreign exchange rates		3	(20)
Increase (decrease) in cash and cash equivalents		(3,548)	5,564
Cash and cash equivalents at end of year		9,031	12,576

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 60-116 are an integral part of these consolidated financial statements.

Consolidated statement of changes in equity

€'000	Equity attributable to owners of the parent						Total	Non-controlling interests	Total
	Share capital	Treasury shares	Capital reserve	Share premium	Translation reserve	Retained earnings			
Balance at 31 December 2019	14,379	(660)	2,554	635	1,169	12,383	30,460	2,313	32,773
Profit for the year	0	0	0	0	0	2,466	2,466	1,652	4,118
Other comprehensive income for the year	0	0	0	0	1,254	0	1,254	0	1,254
Changes in non-controlling interests	0	0	0	0	0	1,497	1,497	(132)	1,365
Transactions with owners									
Dividend declared	0	0	0	0	0	(1,892)	(1,892)	0	(1,892)
Dividend distributed	0	0	0	0	0	0	0	(472)	(472)
Cancellation of dividend	0	0	0	0	0	89	89	0	89
Total transactions with owners	0	0	0	0	0	(1,803)	(1,803)	(472)	(2,275)
Balance at 31 December 2020	14,379	(660)	2,554	635	2,423	14,543	33,874	3,361	37,235
Loss for the year	0	0	0	0	0	(6,310)	(6,310)	804	(5,506)
Other comprehensive expense for the year	0	0	0	0	(475)	0	(475)	0	(475)
Transactions with owners									
Dividend declared	0	0	0	0	0	(1,892)	(1,892)	(1,236)	(3,128)
Total transactions with owners	0	0	0	0	0	(1,892)	(1,892)	(1,236)	(3,128)
Balance at 31 December 2021	14,379	(660)	2,554	635	1,948	6,341	25,197	2,929	28,126

Further information about share capital and other components of equity is provided in note 21.

The notes on pages 60-116 are an integral part of these consolidated financial statements.

NOTE 1. General information about the group

Nordecon AS is a company incorporated and domiciled in Estonia. The address of the company's registered office is Toompuiestee 35, Tallinn 10149, Estonia. The company's controlling shareholder and the party controlling the Nordecon group is AS Nordic Contractors that holds 52.30% of the shares in Nordecon AS. Through AS Nordic Contractors, the Nordecon group's ultimate controlling party is Toomas Luman. The Nordecon AS shares have been listed on the Nasdaq 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 2021 comprise the company and its subsidiaries (together referred to as 'the group') and the group's interests in associates. The group's primary activities are building and infrastructure construction (as a general contractor) and, within strategic limits, real estate development. In addition to Estonia, the group operates through its subsidiaries and associate in Ukraine, Finland and Sweden. The operations of the Lithuanian subsidiary have been suspended.

NOTE 2. Statement of compliance and basis of preparation

Statement of compliance

The consolidated financial statements of the Nordecon AS group as at and for the year ended 31 December 2021 have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS EU). The parent's primary financial statements are presented in note 38 to the consolidated financial statements in accordance with the requirements of the Estonian Accounting Act.

The accounting policies set out below have been applied consistently to all periods presented.

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

The board authorised these consolidated financial statements for issue on 20 April 2022.

Basis of measurement

The consolidated financial statements have been prepared under the historical cost convention except for investment properties and derivative financial instruments which have been measured at fair value. The methods used to measure fair value are described in note 4.

Functional and presentation currency

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

Use of significant accounting estimates and judgements

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

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

The group conducted its business predominantly in Estonia in 2021. During the period, Estonia's economy grew by 8.3% compared with 2020 and by 5.2% compared with 2019, exceeding the pre-COVID-19 level. Growth was driven by manufacturing, which achieved its pre-COVID-19 level, and supported by information and communication, transportation and warehousing, and professional, scientific and technical activities. Accommodation and catering, which had been ravaged by the health crisis, also showed rapid growth.

Growth was held back by trade and agriculture which were affected by a price increase. Despite rising prices, the energy sector remained at the same level as in 2020.

Total construction output grew by 9% in 2021. Estonian construction companies' output in Estonia and abroad amounted to €3.6 billion, the figure comprising building construction of €2.5 billion and infrastructure construction of €1.1 billion. Building construction grew by 12% and infrastructure construction by 4% compared with 2020. Total output also grew compared with 2019, when the previous record was set.

The construction market is strongly influenced by public investments, which in 2021 grew at the same rate as the market. A general rise in demand and rapid growth in input prices have triggered a roughly 30% increase in construction prices. Therefore, investments made by the public sector are expected to decline in 2022 because the resources earmarked for investment are no longer sufficient to cover investment costs.

The group's management has had to make estimates and exercise judgement in an environment where reliable broad-based information on the market prices of some assets is often unobtainable and, due to global economic developments, the outlooks of the construction and the real estate markets are uncertain.

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

Recognition of construction contract revenue by reference to the stage of completion method (note 25) (E)

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

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

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

Determination of the net realisable value of inventories (note 10) (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 involved in real estate development in Estonia and apartments built for sale are recognised as inventories until their sale (until the signature of the real right contract, see note 5 for the explanation of the real right contract). The group estimates the carrying amounts of unsold apartments carried in inventories by comparing the carrying amounts 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 the calculations of its own real estate specialists. Most of the properties have a detailed spatial plan or proceedings for its adoption have been started. The properties are located in or near Estonia's four largest regional hubs (Tallinn, Tartu, Pärnu and Narva). The group measured the properties using the residual value method, which requires extensive estimation. Under the residual value method, the value of a property is the sum that remains from estimated revenue from the sale of the development project planned on the property after the deduction of estimated construction and other development costs. The valuations, which were performed by the group's real estate specialists with the assistance of independent experts separately for each property, took into account the opportunities and specific features of the detailed spatial plan or the planned building rights (including the region and location of the property). Based on the valuation results, there was no need to write the properties down. A sensitivity analysis of the valuations is presented in the notes to the consolidated financial statements.

Classification (J) and measurement (E) of investment properties (notes 4 and 12)

On initial recognition, properties (items of real estate) are classified to inventories or investment properties on the basis of management's intentions regarding their use. On subsequent reclassification, properties are transferred from one category to another based on the change in their use or 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 three methods: the discounted cash flow method, the sales comparison method or the existence of a sales contract (under the law of obligations) at the reporting date (see note 5 for information on the application of the methods).

The group's investment properties are located in Estonia in Pärnu and in Ukraine in Shastliv village near Kiev, next to the Kiev-Borispol motorway. During the year, the number of sales transactions involving plots without buildings in the above regions was insufficient to value the properties using the sales comparison method. Thus, the group estimated the values of the properties using the discounted cash flow method. The estimates were made separately for each property, taking into account the opportunities and specific features of the detailed spatial plan or planned building rights (including the location of the property). Based on the estimates, the properties located in Pärnu were remeasured to fair value and the carrying amount of one investment was increased by €126 thousand and the carrying amount of the other was reduced by €168 thousand. The fair value of the investment property in Ukraine was also remeasured as at the reporting date and its carrying amount was increased by €2 thousand. A sensitivity analysis of the valuations is presented in the notes to the consolidated financial statements.

Provisions and contingent liabilities (notes 20 and 34) (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. Provisions are recognised after the completion of construction activity and the delivery of the project to the customer. Warranty periods generally extend from two to three years in general construction and civil engineering and from two to five years in road construction. The amount of post-construction warranty liabilities is estimated based on historical data on actual warranty expenses, which generally extend from 0.15% to 1% 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 and maintenance projects. As a rule, the 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. The group calculates a rehabilitation provision by dividing the estimated rehabilitation expenditure, i.e. the ultimate known costs of restoring the quarry area, 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, the quantities to be extracted and the sufficiency of the rehabilitation provisions recognised once a year.

Measurement of goodwill (note 14) (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 determined by estimating the future net cash flow of a CGU and by applying an appropriate discount rate 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 business segment whose acquisition gave rise to goodwill (through the purchase price allocation). The value in use of a CGU is determined by making detailed forecasts of the CGU's net cash flow for the next four years. Management makes the forecasts on the assumption that at the end of the forecast period the CGU is in a stable and financially sustainable state so that the terminal value for identifying value in use can be estimated on a going concern basis. The value in use of a CGU is compared against the cost of the investment made (including goodwill).

The projected net cash flows, which include both working capital investments and capital expenditures incurred to maintain assets in the state they are in at the time the estimate is made, are discounted by using the weighted average cost of capital (both debt and equity capital) as the discount rate.

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 are 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 10.0% to 10.7%.

Measurement of loans provided (note 8) (E)

In line with the group's accounting policies, loans provided are measured at their amortised cost using the effective interest method. Management measures each loan on an individual basis. The need for writing down a loan provided, either in part or in full, is decided based on the debtor's financial position and cash flow forecast and the value of the collateral.

The repayment of the loan the group has provided to its Ukrainian associate for the acquisition and development of a property (a plot) depends on how successfully the real estate project can be realised. The group determines the value of the development project to be carried out with the assistance of an independent internationally recognised appraiser. According to the assessment of the group's management, all the assumptions applied in the valuation of the loan were realistic but due to the complicated situation of the Ukrainian economy the sensitivity of the value of the loan is higher than usual. Significant inputs estimated by management included the project's cash flows (expected rental prices), discount rates, the vacancy rates of the commercial premises to be rented out and the time factor of the realisation of the project (delays in completion).

NOTE 3. New standards, amendments and interpretations

New standards, amendments and interpretations effective for the reporting period

The following new standards, amendments and interpretations became effective for the group from 1 January 2021.

Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 – *Interest Rate Benchmark Reform (IBOR) (Phase two)*

The amendments address issues that might affect financial reporting as a result of the interest rate benchmark reform, including the effects of changes in the contractual cash flows or hedging relationships arising from the replacement of an interest rate benchmark with an alternative benchmark rate. The amendments provide practical relief from certain requirements in IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 relating to:

- changes in the basis for determining the contractual cash flows of financial assets, financial liabilities and lease liabilities; and
- hedge accounting.

Change in the basis for determining cash flows:

The amendments require the group to account for a change in the basis for determining the contractual cash flows of a financial asset or financial liability that is required by interest rate benchmark reform by updating the effective interest rate of the financial asset or financial liability.

Hedge accounting:

The amendments provide exceptions to the hedge accounting requirements in the following areas:

- They allow amendment of the designation of a hedging relationship to reflect changes that are required by the reform. This amendment will not result in a discontinuation of the hedge or designation of a new hedging relationship.
- When a hedged item in a cash flow hedge is amended to reflect the changes that are required by the reform, the amount accumulated in the cash flow hedge reserve will be deemed to be based on the alternative benchmark rate on which the hedged future cash flows are determined.
- When a group of items is designated as a hedged item and an item in the group is amended to reflect the changes that are required by the reform, the hedged items are allocated to sub-groups based on the benchmark rates being hedged.
- If an entity reasonably expects that an alternative benchmark rate will be separately identifiable within a period of 24 months, it can designate the rate as a non-contractually specified risk component if it is not separately identifiable at the designation date.

Disclosure

The amendments require the group to disclose additional information to enable users to understand the effect of the interest rate benchmark reform on its financial instruments, including information about its exposure to the risks arising from the interest rate benchmark reform and related risk management activities. According to the group's assessment the amendments, when initially applied, did not have a material impact on its financial statements.

New standards, amendments and interpretations not yet effective

At 31 December 2021, some new International Financial Reporting Standards, amendments to standards and interpretations had been published which were not yet effective for the reporting period and were therefore not applied in preparing these consolidated financial statements.

The following new standards and amendments may have an impact on the group's financial statements:

Amendments to IAS 1 *Presentation of Financial Statements*

(effective for annual periods beginning on or after 1 January 2023; to be applied prospectively; early application is permitted.) *These amendments are not yet endorsed by the EU.*

The amendments clarify that the classification of liabilities as current or non-current is based solely on the entity's right to defer settlement at the end of the reporting period. The company's right to defer settlement for at least 12 months from the reporting date need not be unconditional but must have substance. The classification is not affected by management's intentions or expectations about whether and when the entity will exercise its right. The amendments also clarify the situations that are considered settlement of a liability.

The group does not expect the amendments to have a material impact on its financial statements when initially applied.

Amendments to IAS 1 *Presentation of Financial Statements* and IFRS Practice Statement 2 *Making Materiality Judgements*

(Effective for annual periods beginning on or after 1 January 2023. Early application is permitted.) *These amendments are not yet endorsed by the EU.*

The amendments to IAS 1 aim to help entities provide accounting policy disclosures that are more useful by:

- requiring companies to disclose their material accounting policies rather than their significant accounting policies;
- clarifying that accounting policies related to immaterial transactions, other events or conditions are themselves immaterial and as such need not be disclosed; and
- clarifying that not all accounting policies that relate to material transactions, other events or conditions are themselves material to a company's financial statements.

The International Accounting Standards Board also amended IFRS Practice Statement 2 to include guidance and two additional examples on the application of materiality to accounting policy disclosures. The amendments are consistent with the refined definition of material: *"Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements."*

The group does not expect the amendments to have an impact on its financial statements when initially applied.

Amendments to IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*

(Effective for annual periods beginning on or after 1 January 2023; to be applied prospectively. Early application is permitted.) *These amendments are not yet endorsed by the EU.*

The amendments introduce a new definition for accounting estimates: clarifying that they are monetary amounts in the financial statements that are subject to measurement uncertainty. The amendments also clarify the relationship between accounting policies and accounting estimates by specifying that a company develops an accounting estimate to achieve the objective set out by an accounting policy.

The amendments are not expected to have a material impact on the group as these amendments provide guidance in determining whether changes are to be treated as changes in estimates, changes in policies, or errors.

Amendments to IAS 12 *Income Taxes*

(Effective for annual periods beginning on or after 1 January 2023. Early application is permitted.) *These amendments are not yet endorsed by the EU.*

The amendments clarify the accounting for deferred tax on transactions that involve recognising both an asset and a liability with a single tax treatment related to both. The amendments narrow the scope of the initial recognition exemption (IRE) so that it does not apply to transactions that give rise to equal and offsetting temporary differences. As a result, companies will need to recognise a deferred tax asset and a deferred tax liability for temporary differences arising on initial recognition of a lease and a decommissioning provision.

The group does not expect the amendments to have a material impact on its financial statements when initially applied.

Amendments to IFRS 3 *Business Combinations*

(Effective for annual periods beginning on or after 1 January 2022. Early application is permitted.)

The amendments to IFRS 3 update a reference in IFRS 3 to the 2018 Conceptual Framework for Financial Reporting instead of the 1989 Framework. At the same time, the amendments add a new paragraph to IFRS 3 to clarify that contingent assets do not qualify for recognition at the acquisition date.

The group does not expect the amendments to have a material impact on its financial statements when initially applied.

Amendments to IAS 16 *Property, Plant and Equipment*

(Effective for annual periods beginning on or after 1 January 2022; to be applied retrospectively. Early application is permitted.)

The amendments to IAS 16 require that the proceeds from selling items produced while bringing an item of property, plant and equipment to the location and condition necessary for it to be capable of operating in the manner intended must be recognised, together with the cost of those items, in profit or loss and that the entity must measure the cost of those items applying the measurement requirements of IAS 2. The amendments must be applied retrospectively, but only to items of property, plant and equipment that are brought to the location and condition necessary for them to be capable of operating in the manner intended on or after the beginning of the earliest period presented in the financial statements in which the entity first applies the amendments. The cumulative effect of initially applying the amendments will be recognised as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at the beginning of that earliest period presented (if necessary).

The group does not expect the amendments to have a material impact on its financial statements when initially applied.

Amendments to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*

(Effective for annual periods beginning on or after 1 January 2022; to be applied retrospectively. Early application is permitted.)

In determining the costs of fulfilling a contract, the amendments require an entity to include all costs that relate directly to a contract. The amendments clarify that the cost of fulfilling a contract comprises both: the incremental costs of fulfilling that contract and an allocation of other costs that relate directly to fulfilling contracts. An entity must apply those amendments to contracts for which it has not yet fulfilled all its obligations at the beginning of the annual reporting period in which it first applies the amendments (the date of initial application). The entity will not restate comparative information. Instead, the entity will recognise the cumulative effect of initially applying the amendments as an adjustment to the opening balance of retained earnings or other component of equity, as appropriate, at the date of initial application.

The group does not expect the amendments to have a material impact on its financial statements when initially applied, because in determining the costs of fulfilling a contract the group takes into account both incremental costs and other costs that relate directly to fulfilling contracts.

NOTE 4. 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 CGUs 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 (gain from a bargain purchase) is the excess of the acquirer's interest in the fair value of the net assets acquired over the cost of the business combination. Gain from a bargain purchase is recognised as income in profit or loss 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.

The group's Estonian subsidiaries prepare their financial statements in accordance with the Estonian Financial Reporting Standard and the Swedish, Ukrainian and Finnish subsidiaries prepare their financial statements in accordance with the Swedish, Ukrainian and Finnish generally accepted accounting principles, respectively. Where necessary, their accounting policies are adjusted in preparing the consolidated financial statements to ensure conformity with the group's accounting policies.

Associates

Associates are entities in which the investor has significant influence, but not control of 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.

Investments in associates 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 the investee (e.g. long-term loans).

The group's Estonian associates prepare their financial statements in accordance with the Estonian Financial Reporting Standard and the group's Ukrainian associate prepares its financial statements in accordance with the Ukrainian generally accepted accounting principles. Where necessary, their accounting policies are adjusted in preparing the consolidated financial statements to ensure conformity with the group's accounting policies.

Joint operations

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

Transactions eliminated on consolidation

In preparing the consolidated financial statements, all intragroup transactions, balances and unrealised profits and losses are eliminated. Unrealised profits arising from transactions with associates accounted for using the equity method are eliminated against the investment to the extent of the parent's interest in the investee. Unrealised losses from transactions with associates are eliminated in the same way as unrealised profits, but only to the extent that there is no evidence of impairment of the investment and the need to write the investment down.

Translation of the financial statements of foreign subsidiaries

The assets and liabilities of foreign subsidiaries (including 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	Swedish krona (SEK)	Ukrainian hryvnia (UAH)*
€1	31 December 2021	10.2503	30.9226
€1	31 December 2020	10.0343	34.7396

* The European Central Bank does not publish the exchange rate for UAH. At the beginning of 2015, the Central Bank of Ukraine ceased determining the indicative exchange rate for UAH. Therefore, the UAH exchange rate is based on the information published by Ukraine's Ministry of Finance.

Foreign currency transactions

A foreign currency transaction is recorded in the functional currency of a group entity 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

Regular way purchases and sales of financial assets (except for loans provided and receivables) are recognised using trade date accounting. The trade date is the date on which the group commits itself to purchase or sell an asset (e.g. the date on which the contract is signed).

Loans and receivables are recognised on the date they originated. A purchase or sale is considered a regular way purchase or sale if the terms of the contract require delivery of the asset within the time frame established generally by regulation or convention in the marketplace concerned.

Depending on their classification, subsequent to initial recognition all financial assets are measured in their entirety either at their amortised cost or fair value.

Classification of financial assets

The classification and subsequent measurement of a financial asset depends on the business model chosen for managing relevant financial assets and the contractual terms of the cash flows. The classification of a financial asset is determined on its initial recognition.

a) Financial assets measured at amortised cost

Subsequent to initial recognition, debt instruments are measured at their amortised cost using the effective interest method only if both of the following conditions are met:

- the financial asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding.

The group has classified cash and cash equivalents, trade receivables, amounts due from customers for contract work, loans provided and other receivables as financial assets measured at amortised cost.

The effective interest method is the method of calculating the amortised cost of a debt instrument and of allocating the interest income over the relevant contract period. The effective interest rate is the rate that discounts estimated future cash receipts through the expected life of the debt instrument or, when appropriate, a shorter period, to the gross carrying amount of the debt instrument measured at initial recognition (the calculation includes all fees paid or received that are an integral part of the effective interest rate, transaction costs, and other premiums or discounts but excludes expected future credit losses).

Interest income is recognised within finance income in profit or loss.

b) Financial assets measured at fair value through other comprehensive income

A debt instrument is measured at fair value through other comprehensive income if both of the following conditions are met:

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The group has not classified any financial assets as measured at fair value through other comprehensive income.

c) Financial assets measured at fair value through profit or loss

Financial assets that do not meet the conditions for financial assets measured at amortised cost and financial assets measured at fair value through other comprehensive income are measured at fair value through profit or loss. In particular:

- investments in equity instruments are classified as measured at fair value through profit or loss unless the group makes an election at initial recognition to present an investment in an equity instrument that is neither held for trading nor contingent consideration recognised in a business combination as a financial asset measured at fair value through other comprehensive income;
- debt instruments that do not meet the conditions for financial assets measured at amortised cost and financial assets measured at fair value through other comprehensive income are classified as measured at fair value through profit or loss. In addition, debt instruments that meet the conditions for either financial assets measured at amortised cost or financial assets measured at fair value through other comprehensive income may be designated as measured at fair value through profit or loss if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases.

The group has not classified any debt instruments as measured at fair value through profit or loss.

The group measures derivative financial assets at fair value through profit or loss unless they have been designated as effective hedging instruments.

When an asset has been designated as measured at fair value through profit or loss, any gains and losses on changes in its fair value are recognised in the period in which they arise in profit or loss, within finance income and finance costs, respectively.

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 method.

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 12 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 12 months.

Cash and cash equivalents

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

Financial liabilities

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

A financial liability is classified as current when it is due to be settled within 12 months after the reporting date or when the group does not have an unconditional right to defer settlement of the liability for at least 12 months after the reporting date. Loan liabilities that are to be settled within 12 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 of receivables) depends on whether the purchaser (the factor) has the right to transfer the receivable back to the seller in the event of the debtor's default (factoring with recourse).

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

The group also uses reverse factoring. Under a reverse factoring arrangement, the group's subcontractors that do not have sufficient credit standing to obtain a factoring limit from a financial institution may use the group's limit.

Purchase invoices financed under a reverse factoring arrangement are recognised within trade payables until the invoice is settled. The costs arising from the use of reverse factoring are covered by subcontractors. The group does not incur any additional income or expenses from reverse factoring.

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 asset.

Finished goods include items of real estate (e.g. apartments) which have been completed as a result of real estate development and are available for sale; such items 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 cost.

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

Investment property

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

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

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

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

Property, plant and equipment

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

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

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

Subsequent costs related to an item of property, plant and equipment, such as the costs of replacing a 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 about 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.

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 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

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 about 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 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

Measurement of fair value is described in note 5.

At each reporting date the group assesses whether there is any indication that an asset may be impaired. If any such indication exists, the group estimates the recoverable amount of the asset.

Financial assets

The group assesses on a forward-looking basis the expected credit losses (ECL) associated with debt instruments carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

The measurement of ECL reflects:

- an unbiased and probability weighted amount that is determined by evaluating a range of possible outcomes;
- the time value of money; and
- all reasonable and supportable information that is available without undue cost and effort at the end of each reporting period about past events, current conditions and forecasts of future conditions.

For cash and cash equivalents, the deposit, trade receivables and contract assets without a significant financing component the group applies a simplified approach permitted by IFRS 9 and measures the loss allowance at an amount equal to lifetime expected credit losses from initial recognition of the receivables. The group uses a provision matrix in which an allowance for expected credit losses is calculated based on the ageing profile of the receivables.

Non-financial assets

The group assesses at each reporting date whether there is any indication that a depreciable or amortisable asset or an item of property, plant and equipment with an unlimited useful life may be impaired. If any such indication exists, the group estimates the recoverable amount of the asset and compares it to the asset's carrying amount. In estimating value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects the time value of money and the risks specific to the asset. If an asset does not generate cash inflows that are largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit (CGU) to which the asset belongs.

An impairment loss for an intangible asset with an indefinite useful life, including goodwill, is recognised when the recoverable amount of the asset or the cash-generating unit is less than its carrying amount. An impairment loss is recognised immediately in profit or loss.

Goodwill is tested for impairment at least annually at the end of the financial year. Impairment is determined by estimating the recoverable amount of the CGU to which goodwill has been allocated.

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

Reversal of an impairment 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.

Impairment losses recognised for an investment in an equity instrument classified as available for sale are not reversed through profit or loss. If the fair value of a debt instrument classified as available for sale subsequently increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed, with the amount of the reversal recognised in profit or loss.

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.

The group recognises provisions for onerous construction contracts in progress based on the uncompleted parts of the contracts (see also *Revenue from construction contracts*).

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

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

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

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

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

Short-term employee benefits

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

Termination benefits are paid to an employee when the group terminates the employee's employment before the normal retirement date or the employee accepts voluntary redundancy in exchange for those benefits. The liability arises, first and foremost, as a result of the termination of an employment relationship. Therefore, the group recognises termination benefits only when it is demonstrably committed to terminate the employment of an employee or a group of employees before the normal retirement date, or to provide termination benefits as a result of an offer made in order to encourage voluntary redundancy. Where termination benefits fall due more than 12 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 owners. 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 the amount of the obligation can be estimated reliably.

Share-based payments

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

Derivatives

The group uses derivative financial instruments (interest rate swaps) to manage the risks arising from changes in interest rates. When a derivative financial instrument is recognised initially, it is measured at its fair value at the date the group entered into the contract. After initial recognition, the derivative financial instrument is measured to fair value at the end of each reporting period. Any change in fair value is recognised in profit or loss. When the fair value of a derivative financial instrument is positive, the instrument is recognised as an asset. When the fair value of a derivative financial instrument is negative, it is recognised as a liability. A derivative financial instrument is classified as current when it is probable that it will be realised or settled in the next 12 months. In all other cases, a derivative financial instrument is classified as non-current. The fair value of derivative financial instruments is measured based on information provided by credit institutions.

A gain or loss on a change in the fair value of a derivative financial instrument is recognised in profit or loss. A gain on loss the sale of a derivative financial instrument is also recognised in profit or loss.

Leases

The group as a lessee

Leases are recognised as right-of-use assets and lease liabilities (within borrowings) at the commencement date of the lease, i.e. at the date on which the lessor makes the underlying asset available for use by the group. Assets and liabilities arising from a lease are measured in the statement of financial position at the present value of the lease payments. Lease payments are apportioned between payments for the principal lease liability and finance cost (interest expense). The finance cost is allocated to each period during the lease term so that it would produce a constant periodic rate of interest on the remaining balance of the lease liability.

Right-of-use assets are depreciated on a straight-line basis over the shorter of the useful life and lease term of the asset.

Lease payments include the following payments made during the lease term:

- fixed lease payments, less any lease incentives receivable (payments, or reimbursements of costs, by the lessor);
- variable lease payments that are based on an index or rate (e.g. inflation, EURIBOR);
- amounts expected to be payable by the lessee under residual value guarantees;
- the exercise price of a purchase option (if the lessee is reasonably certain to exercise the option) and payments resulting from extending or terminating the lease (if the lease term reflects the lessee exercising an option to terminate the lease).

Lease payments are discounted using the interest rate implicit in the lease or, alternatively, the lessee's incremental borrowing rate. The incremental borrowing rate is the interest rate that the group would have to pay to borrow the funds necessary to obtain an asset similar to the right-of-use asset.

The cost of a right-of-use asset comprises:

- the present value of the lease payments;
- any initial direct costs incurred by the lessee;
- any lease payments made before the commencement date of the lease;
- costs to be incurred in removing the underlying asset (if required by the lease) or restoring the underlying asset to the condition required by the terms and conditions of the lease.

Short-term leases and leases for which the underlying asset is of low value are recognised as an expense on a straight-line basis over the lease term. In determining the lease term, management assesses how probable it is that the group will exercise, or not exercise, an extension or termination option, considering all relevant facts and circumstances that create an economic incentive to exercise, or not exercise, an option. Periods covered by an option to extend the lease (or periods covered by an option to terminate the lease) are only included in the lease term if it is reasonably certain that the extension option will be exercised (or the termination option will not be exercised). Management reviews its assessments regarding the extension and termination options upon the occurrence of a significant event or a significant change in circumstances that affects the probability of the group exercising an option or when there is a change in the non-cancellable period of the lease.

The group as a lessor

Assets leased out under operating leases are presented in the statement of financial position according to the nature of the asset and are accounted for similarly to property, plant and equipment. The depreciation policy for assets that have been leased out is consistent with the normal depreciation policy for similar assets. Lease income from operating leases is recognised in income on a straight-line basis over the lease term.

An asset leased out under a finance lease is recognised in the statement of financial position and presented as a receivable at an amount equal to the net investment in the lease. Under a finance lease, the lessor transfers substantially all the risks and rewards incidental to ownership of the underlying asset to the lessee and thus removes the asset from its statement of financial position and recognises instead a finance lease receivable, i.e. its net investment in the lease. A finance lease receivable is the sum of the present value of lease payments receivable and the present value of the estimated residual value of the underlying asset at the end of 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 to cover accumulated losses if the latter cannot be covered with unrestricted equity. The capital reserve may also be used to increase 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 of 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

Deferred tax

Deferred tax is recognised for temporary differences that arise between the carrying amounts of assets and liabilities and their tax bases (the tax base is the amount attributed to an asset or liability for tax purposes).

Under Estonian laws, corporate profit for the year is not subject to taxation. The obligation to pay corporate income tax arises on the distribution of profit and is recognised as an expense (in profit or loss for the period) when a dividend is declared. Due to the nature of the taxation system, companies registered in Estonia do not have deferred tax assets or liabilities except for possible deferred tax liabilities related to investments in subsidiaries, associates, joint ventures and branches.

The group incurs deferred tax liabilities in connection with investments in entities domiciled in countries where profit for the year is subject to income tax.

The group also incurs deferred tax liabilities in connection with investments in subsidiaries domiciled in Estonia except to the extent that the group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future. Examples of the reversal of taxable temporary differences include the distribution of a dividend, the disposal of an investment, and similar transactions.

Since the group controls the dividend policy of its subsidiaries, it is also able to control the timing of the reversal of the temporary differences associated with those investments. If the parent has decided not to distribute the profit of a subsidiary in the foreseeable future, it does not recognise a deferred tax liability. If the parent expects a dividend to be distributed in the foreseeable future, it recognises a deferred tax liability to the extent of the expected dividend distribution assuming that at the reporting date there are sufficient funds and equity from which profit can be distributed in the foreseeable future.

The group measures deferred tax liabilities at the tax rates that are expected to apply to the taxable temporary differences in the periods in which the temporary differences are expected to reverse, based on the tax rates enacted at the reporting date.

The standard tax rate in Estonia is 20% (the amount of tax payable is calculated as 20/80 of the net distribution or payment). From 2019, regular dividend distributions are subject to a lower tax rate of 14% (the amount of tax payable is calculated as 14/86 of the net distribution). Every calendar year, the lower tax rate can be applied to dividend and other profit distributions to an extent that does not exceed the amount of dividend and other profit and equity distributions made in the preceding three calendar years that have been taxed with income tax.

Income tax assets and liabilities and income tax income and expense comprise current and deferred items. Current tax (recoverable or payable) related to taxable profit or the distribution of dividends is recognised as a current asset or liability. Deferred tax is recognised as a non-current asset or liability unless it is probable that the deferred tax will realise in the next reporting period.

Information about income tax liabilities is provided in note 32 to the consolidated financial statements.

Foreign subsidiaries and associates

In Ukraine, Finland, Sweden and Lithuania corporate profits are subject to income tax. In the reporting period, the income tax rates were as follows: Ukraine 18% (2020: 18%), Finland 20% (2020: 20%), Sweden 22% (2020: 22%) and Lithuania 15% (2020: 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 income arising in the course of the group's ordinary activities. Revenue is recognised in the amount of the transaction price. The transaction price is the amount of consideration to which the group expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties. The group recognises revenue when control of a good or service is transferred to the customer.

Revenue from construction contracts

Construction contract revenue and construction contract costs (under contracts secured as a general contractor and a subcontractor and road maintenance contracts) 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 using the cost method, i.e. based on 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 entire expected loss is recognised immediately as an expense in profit or loss and in provisions in the statement of financial position (see also the accounting policy *Construction contracts in progress*).

Revenue from sale of goods purchased and finished goods

Revenue from the sale of goods purchased and finished goods, including real estate developed by the group (own developments), is recognised when control of the goods has been substantially 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, 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 method. Dividend income is recognised when the right to receive payment is established.

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 construction contract is determined using the cost method, i.e. based on the proportion that contract costs incurred for work performed bear to the estimated total contract costs. Construction contract costs comprise costs that relate directly to a specific contract and costs that are attributable to contract activity in general (overheads).

If at the reporting date progress billings exceed the revenue recognised using the stage of completion method, the difference is recognised in the statement of financial position as a current liability (in deferred income). If the revenue recognised using the stage of completion method exceeds progress billings, the difference is recognised in the statement of financial position as a current asset (in trade and other receivables).

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

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

The parent company's primary financial statements are presented in the notes as supplementary information required by the Estonian Accounting Act. The parent company does not prepare additional separate financial statements as defined in IAS 27.

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

When there is any indication that an investment may be impaired or at least at each financial year-end, 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 5. Financial risk management

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

- Credit risk
- Liquidity risk
- Market risk

The group's risk management process is based on the premise that effective risk management is underpinned by continuous identification and accurate assessment of the potential impacts of the risks faced by the group as well as adherence to the risk management policies in place. The main objective of relevant activities is to prevent and manage risks which could have an adverse impact on the adequacy of working capital required for carrying out the group's core business and which could jeopardise the group's compliance with the conditions set by the 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 diversifying 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 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 the audit committee set up 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 no need to write down receivables from public sector customers thanks to their stable solvency. In 2021, the share of revenue from public sector customers decreased somewhat and accounted for around 37% (2020: around 39%). The largest public sector customers were the Transport Administration and the Centre for Defence Investment whose contracts accounted for around 15% and 3% of the group's revenue, respectively (2020: 13% and 6%, respectively). 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 rated as creditworthy by management. In the case of customers with whom the group has prior experience, credit risk assessment is mainly based on the customer's historical settlement behaviour and current monitoring. In the case of high-risk counterparties, services are rendered and goods are sold on a prepayment basis only.

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

When a credit loss is anticipated, the receivable or loan is written down. 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. The group also analyses the probability of future credit losses. The analysis is performed on trade receivables and amounts due from customers for contract work. Expected credit losses are estimated using a provision matrix that is based on the group's historical credit loss experience, adjusted for factors specific to the debtors, general economic conditions, an assessment of both current and forecast developments at the reporting date and, where appropriate, the time value of money. Lifetime expected credit losses are expected credit losses that result from all possible default events over the expected life of a financial instrument. Based on the analysis performed, the group did not recognise a provision at 31 December 2021 or 31 December 2020 (note 8).

Further information about the group's credit risk exposure is provided in note 33.

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 quarter, growth in operations triggers the need for additional working capital.
- In the construction sector it is often necessary to make prepayments to subcontractors and materials suppliers while customers are generally not required to make advance payments. The group has to cover the shortfall in working capital, which arises from the mismatch between cash receipts and payments, with own funds or using 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.

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

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

The group's liquidity position in 2022

At the reporting date, the group's current assets and current liabilities amounted to €87,706 thousand and €93,318 thousand, respectively, and the current ratio was 0.94 (31 December 2020: €87,737 thousand and €86,509 thousand, respectively, and the current ratio was 1.01). Current liabilities included borrowings of €16,289 thousand (31 December 2020: €18,508 thousand). A significant share of current borrowings is made up of overdrafts of €10,248 thousand (2020: €11,527 thousand).

The group's management believes that in 2022 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 about the group's liquidity is provided in note 33.

Market risk

Market risk is the risk that changes in market prices such as changes in foreign exchange rates, interest rates and the 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, borrowings denominated in euros. In 2021, the Ukrainian hryvnia strengthened against the euro by around 12%. As a result, the group's Ukrainian subsidiaries, which have to translate their euro-denominated loans into the local currency, recognised a foreign exchange gain of €711 thousand (2020: a loss of €1,485 thousand). Exchange gains and losses on financial instruments have been recognised in finance income and finance costs, respectively.

Translation of receivables and liabilities from operating activities did not give rise to any exchange gains or losses. The loans provided to the group's Ukrainian associate in euros do not give rise to exchange gains or losses in the group's accounts.

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

During the reporting period, the Swedish krona weakened against the euro by around 2%. In 2021, the translation of receivables and payables related to operating activity due to the movement of the Swedish krona against the euro did not give rise to any exchange gains or losses. In 2020, there was an exchange loss of €48 thousand, which was recognised in other operating expenses. The translation of a loan provided to the Swedish subsidiary in euros into the local currency gave rise to an exchange gain of €16 thousand (2020: a loss of €24 thousand). The prior period exchange loss has been recognised in finance costs.

The group has not acquired derivative financial instruments to hedge currency risk.

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. 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 has entered into a derivative contract to manage the risks related to the interest rate of a lease contract signed in 2016 for the acquisition of an asphalt concrete plant.

Further information about the group's market risk exposures is provided in note 33.

Country risk

In the reporting period, the group's foreign markets included Sweden, Finland and Ukraine. Revenues generated in Finland and Ukraine accounted for 3% and 2% of the group's total revenue, respectively, while revenue generated in Sweden accounted for less than 1% (2020: Sweden 11%, Finland 6%, Ukraine 1%). At the year-end, assets located in Sweden, Finland and Ukraine accounted for 0.4%, 2% and 9% of the group's total assets, respectively (2020: Sweden 3%, Finland 1%, Ukraine 3%). The group also does project-based work in Latvia where in 2021 one project was performed.

There were no significant changes in the group's business operations compared with the end of 2020. Revenue generated in foreign markets decreased compared with 2020, primarily in Sweden (see the chapter *Performance by geographical market* in the directors' report).

The conflict between Russia and Ukraine has significantly increased Ukraine's country risk for the group. It has a negative impact on the construction and real estate market as well as the value of financial instruments related to Ukraine (note 37).

Real estate development activities which require major investment remain suspended (we have currently stakes in two development projects that have been put on hold). To safeguard the investments made and loans provided, the group and the co-owners have privatised the property held by the associate V.I. Center TOV and created mortgages on it.

In view of the above factors, management is of the opinion that the group's financial instruments and investment property that are related to Ukraine carry increased risk and the probability that their value may decrease is above average (notes 8 and 12).

Determination of fair value

According to management's assessment, the carrying amounts of the group's financial assets and liabilities do not differ significantly from their fair values. The group categorises financial instruments into three levels based on the inputs of their valuation techniques:

- Level 1: Financial instruments measured based on prices quoted on a stock exchange or another active regulated market (unadjusted). A market is active if quoted prices are readily and regularly available from a stock exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring transactions on an arm's length basis.
- Level 2: Financial instruments measured using valuation techniques that use observable inputs. For example, financial instruments which are measured based on quoted prices for similar instruments in an active regulated market or financial instruments which are measured based on quoted prices in regulated markets but whose market liquidity is low. In applying a fair value measurement technique, the group maximises the use of observable inputs, if those are available, and minimises the use of its own estimates. An instrument is categorised to level 2 when all significant valuation inputs are observable. If one or several of significant inputs are not based on observable market data, the instrument is categorised into level 3.
- Level 3: Financial instruments which are measured using valuation techniques that use unobservable inputs.

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 are 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 (other investments) 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 central bank of Estonia.

A comparison of the fair values and carrying amounts of the group's financial instruments is presented in note 33.

Investment property

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

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

- 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.
- Price in a contract under the law of obligations – The fair value of properties which at the reporting date have been sold under a contract under the law of obligations but whose real right contract³ has not yet been signed is determined based on the sales price of the property in the contract under the law of obligations. The method is used to determine 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.

The group measured the fair values of its investment properties using the discounted cash flow method. The valuations were performed by the group's real estate specialists with the assistance of independent experts. Based on valuation results, the carrying amount of the group's investment properties in Estonia was reduced by €42 thousand and the carrying amount of the group's investment property in Ukraine was increased by €2 thousand. The impact of possible changes in estimates on the value of investment properties is disclosed in note 12.

€'000

As at 31 December	2021	2020
Total interest-bearing liabilities (note 15)	23,694	25,860
Cash and cash equivalents (note 7)	(9,031)	(12,576)
Net interest-bearing liabilities	14,663	13,284
Total equity	28,126	37,235
Invested capital (interest-bearing liabilities + equity)	51,820	63,095
Gearing ratio*	28%	21%

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

Minimum capital requirements

The laws of the parent company's domicile provide minimum requirements to a company's equity. By 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.

Dividend policy

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

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

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.

Dividends distributed by Nordecon AS in previous years:

Year of pay-out	Total dividend paid €'000	Number of shares, in thousands	Dividend per share €	Dividend pay- out ratio*
2017	1,384	30,913	0.045	45.5%
2018	1,859	31,529	0.06	133.9%
2019	1,891	31,529	0.06	55.9%
2020	0	31,529	0	0
2021	3,778	31,529	0.12	65%

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

The company did not distribute a dividend in 2020. The extraordinary general meeting held on 22 December 2020 decided to distribute a dividend of €0.06 per share from retained earnings as at 31 December 2019. The total dividend amounted to €1,889 thousand and it was paid out to the shareholders on 23 March 2021. The extraordinary general meeting held on 1 June 2021 decided to distribute a dividend of €0.06 per share from retained earnings as at 31 December 2020. The total dividend amounted to €1,889 thousand and it was paid out to the shareholders on 29 September 2021. No dividend was paid to Nordecon AS for own shares held by the company.

Own shares do not grant any shareholder rights to the company (note 23).

NOTE 6. Group entities

At 31 December 2021, the Nordecon group had 20 consolidated subsidiaries (2020: 20), of which 14 were incorporated and domiciled in Estonia (2020: 14), 3 in Ukraine (2020: 3), 1 in Lithuania (2020: 1), 1 in Sweden (2020: 1) and 1 in Finland (2019: 1).

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

Subsidiary	Core business	Country of incorporation	Ownership interest 2021 (%)	Ownership interest 2020 (%)
Nordecon Betoon OÜ	Concrete works	Estonia	52	52
Tariston OÜ	Road construction and maintenance	Estonia	100	100
Kaurits OÜ	Leasing out heavy equipment and construction as a subcontractor	Estonia	100	100
Embach Ehitus OÜ	Building construction	Estonia	51	51
EE Ressursid OÜ	Geodetic surveying	Estonia	100	100
Kalda Kodu OÜ	Real estate development	Estonia	100	100
Eurocon OÜ ⁴	Holding company (UKR)	Estonia	100	100
SweNCN OÜ ⁴	Holding company (SE)	Estonia	100	100
Eurocon Ukraine TOV	Building construction	Ukraine	100	100
Eurocon BUD TOV	Building construction	Ukraine	100	100
Tehnopolis-2 TOV ⁴	Real estate development	Ukraine	100	100
NOBE Rakennus OY	Concrete works	Finland	52	52
Nordecon Statyba UAB ⁴	Building construction	Lithuania	80	80
Swencn AB	Building construction (SE)	Sweden	100	100

⁴ Dormant.

In addition to the above subsidiaries, the group includes OÜ Eesti Ehitus, OÜ Aspi, OÜ Linnaehitus, OÜ NOBE, Eston Ehitus OÜ (all established for the protection of former business names) and Infra Ehitus OÜ. All of them are dormant and all are incorporated and domiciled in Estonia.

At 31 December 2021, the group had interests in 2 associates (2020: 2). Further information about equity-accounted investees is presented in note 11.

Summary financial information for subsidiaries with material non-controlling interests:

€'000 Company	2021			Total
	Nordecon Betoon OÜ	NOBE Rakennus OY	Embach Ehitus	
Current assets	23,732	2,608	10,107	36,447
Non-current assets	652	0	534	1,073
Current liabilities	17,226	1,844	6,852	25,922
Non-current liabilities	2,052	3	892	2,947
Equity	5,105	761	2,897	8,763
Revenue	65,894	8,281	27,821	101,996
Profit	1,056	136	481	1,673
Non-controlling interests' share of profit	507	65	236	808
Non-controlling interests' shareholding	48%	48%	49%	
Cash flows from operating activities	4,892	(733)	(431)	3,728
Cash flows from financing activities	(2,030)	750	(1,338)	(2,618)
Cash flows from investing activities	(970)	0	1	(719)
Net cash flow	1,892	17	(1,768)	391

€'000 Company	2020			Total
	Nordecon Betoon OÜ	NOBE Rakennus OY	Embach Ehitus	
Current assets	18,937	1,995	11,558	32,490
Non-current assets	799	0	482	1,281
Current liabilities	13,335	1,367	7,670	22,372
Non-current liabilities	951	3	804	1,758
Equity	5,449	625	3,566	9,640
Revenue	73,800	12,447	26,586	112,833
Profit	2,557	200	676	3,433
Non-controlling interests' share of profit	1,227	96	331	1,654
Non-controlling interests' shareholding	48%	48%	49%	
Cash flows from operating activities	652	(491)	677	838
Cash flows from financing activities	(901)	(500)	(132)	(1,533)
Cash flows from investing activities	520	0	3,605	4,125
Net cash flow	271	(991)	4,150	3,430

At 31 December 2021, non-controlling interests in the group's equity totalled €2,929 thousand (31 December 2020: €3,361 thousand), including non-controlling interests in Embach Ehitus OÜ of €(120) thousand, Nordecon Betoon OÜ of €2,457 thousand and NOBE Rakennus OY of €595 thousand (31 December 2020: Embach Ehitus OÜ of €207 thousand, Nordecon Betoon OÜ of €2,622 thousand and NOBE Rakennus OY of €530 thousand). The remaining non-controlling interests, none of which is individually material for the group, totalled €(3) thousand (31 December 2020: €2 thousand).

NOTE 7. Cash and cash equivalents

€'000	31 December 2021	31 December 2020
Current accounts	9,031	12,576
Total cash and cash equivalents	9,031	12,576

The amounts in current accounts are placed in overnight deposits with banks. In the reporting period, the interest rate of overnight deposits was 0.01% (2020: 0.01%). A significant share of the group's current accounts is with the following banks: Swedbank AS, Luminor Bank AS, SEB Pank AS and Coop Pank AS.

The group's exposure to interest rate risk and a sensitivity analysis of the group's financial assets and liabilities are disclosed in note 33.

NOTE 8. Trade and other receivables

€'000		31 December 2021	31 December 2020
Current items	Note		
Trade receivables	33	31,160	32,331
Retentions receivable	25, 33	6,063	2,117
Receivables from related parties	33, 36	211	494
Other receivables	33	78	113
Total receivables		37,512	35,055
Due from customers for contract work	25, 33	10,579	14,974
Total current trade and other receivables		48,091	50,029
€'000			
Non-current items	Note	31 December 2021	31 December 2020
Loans to related parties	33, 36	8,481	8,237
Receivables from related parties	33, 36	328	299
Other non-current receivables	33	397	118
Total non-current trade and other receivables		9,206	8,654

Trade receivables are presented net of the impairment allowance, which at the year-end amounted to €(546) thousand (31 December 2020: €(153) thousand). Changes in the impairment allowance are disclosed in note 33.

Retentions receivable comprise the amounts of progress billings withheld by customers until the completion of construction or another date agreed in the construction contract. The year-end amounts are expected to be collected within 12 months.

Other non-current receivables comprise a loan to a third party and a Ukrainian subsidiary's withholding tax on payments to a non-resident. According to Ukrainian law, 10% of loan interest paid to a non-resident is withheld and this can only be used to offset the income tax payable on dividends distributed in Estonia.

Long-term loans to related parties comprise a loan to a Ukrainian associate together with accrued interest (note 36).

The loan recognised in the statement of financial position as at 31 December 2021 was provided to the associate for the acquisition and development of real estate (a property). The property is located in Shastliv village near Kiev, next to the Kiev-Borispol motorway. The loan provided to V.I. Center TOV is secured with a mortgage of €7,000 thousand. The group has invested in the associate together with other shareholders in proportion to its ownership interest. The associate's only liabilities are to its shareholders and each shareholder's receivable is proportionate to the shareholder's interest in the associate. The associate's main asset is the above property. Therefore, the carrying amount of the loan was measured based on the fair value of the property held by the associate, which qualifies as a level 3 measurement according to the fair value hierarchy provided in IFRS 13 *Fair Value Measurement*.

At 31 December 2021, the carrying amount of the loan was €8,481 thousand (31 December 2020: €8,237 thousand): loan principal and accrued interest totalled €11,408 thousand (31 December 2020: €11,164 thousand) and prior period impairment losses amounted to €2,927 thousand. The loan was written down due to the downturn in the Ukrainian economy and the weakening of the Ukrainian currency in previous years, which lowered the prices of, and demand for, commercial real estate.

According to management's estimates the associate will settle its loan liability to the group after the sale of the development project (the property), which is expected to occur within the next six years. It is expected that during that time the value of the project will increase by 3%. The expectation is based on Ukraine's economic growth forecast for the next periods. The group's interest in the associate is 44%, none of the shareholders has control of the associate and the property has been mortgaged for the benefit of Nordecon AS.

Based on a valuation report issued in 2021 by an independent internationally recognised appraiser that measured the fair value of the property, the loan receivable did not require a write-down (2020: was written down by €13 thousand). According to the assessment of the group's management, all assumptions applied in the valuation of the loan were realistic but due to the complicated situation of the Ukrainian economy the sensitivity of the value of the loan is higher than usual.

Significant inputs estimated by management for the determination of the fair value of the property included the project's cash flows (expected rental prices), discount rates, the vacancy rates of the commercial premises to be rented out, and the time factor of the realisation of the project (delays in completion).

The key valuation inputs applied in the valuation of the property were as follows:

- a discount rate of 11.1%;
- a vacancy rate of 30-60%, depending on the purpose of use of the rental premises;
- rental prices of €12-21 per square metre or €61-283 per day, depending on the purpose of use of the rental premises;
- a forecast period of 2022-2029 plus the terminal year (growth 2%).

According to the sensitivity analysis (assuming that all other variables remain constant), the loan would have to be written down as follows:

- if rental prices decreased by 10% compared with the ones applied – by around €2,472 thousand;
- if the vacancy rate of the commercial premises rose by 5 percentage points – by around €1,841 thousand;
- if the discount rate rose by 1 percentage point – by around €2,572 thousand;
- if the completion of the development projects, taken as a whole, was deferred by 1 year – by around €415 thousand.

The risks related to the Ukrainian market and the group's action plan are described in the chapters *The group's operations in Estonia and foreign markets* and *Outlooks of the group's geographical markets* and in note 5.

NOTE 9. Prepayments

€'000	31 December 2021	31 December 2020
Prepayments to suppliers	4,042	1,193
Prepaid taxes	665	1,039
Prepaid expenses	240	446
Total prepayments	4,947	2,678

Prepayments to suppliers comprise prepayments for services of €2,624 thousand (2020: €711 thousand) and building materials of €1,418 thousand (2020: €482 thousand).

NOTE 10. Inventories

€'000	31 December 2021	31 December 2020
Raw materials and consumables	3,885	3,007
Work in progress	8,619	5,559
Apartments and parking spaces for sale	230	400
Properties purchased for development and pre-development costs	12,903	13,488
Total inventories	25,637	22,454

In 2021, inventories of €250,912 thousand (2020: €289,431 thousand) were recognised in the cost of sales.

Raw materials and consumables comprise inventories acquired for construction and road maintenance operations. In the reporting and the comparative period, no materials and consumables were written down.

Work in progress includes the costs related to construction contracts in progress at the reporting date (the costs related to work not yet delivered to customers). Work in progress also includes capitalised pre-development expenditures. Properties purchased for development and pre-development costs comprise:

€'000	31 December 2021	31 December 2020
Capitalised pre-development costs	883	586
Properties purchased for development	12,020	12,902
Total	12,903	13,488
Of which borrowing costs	844	769

Capitalised borrowing costs accounted for 8% of the group's total borrowing costs in 2021 (2020: 8%).

Apartments and parking spaces for sale comprise the construction costs of apartments and parking spaces completed but not yet sold. In the reporting and the comparative period, the net realisable values of the assets did not decrease below their carrying amounts and no write-downs were recognised. Net realisable values were estimated using comparisons with the market prices of similar apartments.

At the reporting date, the total carrying value of properties (plots) acquired for development was €12,020 thousand (2020: €12,902 thousand). A property acquired for development is carried within properties purchased for development and pre-development costs 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 apartments for sale. All pre-development expenditures that qualify for capitalisation are recognised in work in progress. At the year-end, properties acquired for development were carried at cost. No properties (plots) acquired for development were written down in the reporting or the comparative period. According to management's assessment, at 31 December 2021, properties purchased for development comprised properties of €4,825 thousand whose development will start within a year and properties of €7,195 thousand whose development will start later. According to the group's estimates, the normal time frame for development (from the acquisition of the plot to the sale of the completed development project) is 10 to 15 years.

Information about inventories pledged as collateral is provided in note 35.

Potential impact of changes in estimates

The group measured the net realisable values of properties (plots) acquired for development using the residual value method. Significant valuation inputs included the expected cash flows of the project (the apartments' expected sales price per square metre, which was set at €1,750 to €2,400, depending on the location). A sensitivity analysis showed that if actual sales proceeds were 10% smaller (compared with the estimates), properties acquired for development would have to be written down by around €4,278 thousand.

NOTE 11. Investments in equity-accounted investees

General information on equity-accounted investees

Name and type of investee	Associate	Domicile	The group's interest		Core business
			31 December 2021	31 December 2020	
V.I. Center TOV	Associate	Ukraine	44%	44%	Real estate development
Kastani Kinnisvara OÜ	Associate	Estonia	26%	26%	Real estate development
Embach Ehitus OÜ	Associate	Estonia	-	51%	Building construction

The group has no liabilities related to associates that are accounted for off the statement of financial position.

Carrying amount of investments in equity-accounted investees

€'000	2021	2020
Total investments in equity-accounted investees at beginning of year	0	2,369
Profit under the equity method	0	734
Disposal of an investment	0	(847)
Reclassification to investments in subsidiaries	0	(1,289)
Dividends received	0	(967)
Total investments in equity-accounted investees at end of year	0	0

Financial information of equity-accounted investees

2021

Summary financial information for associates presented as separate companies

€'000			
Company	V.I. Center TOV	Kastani Kinnisvara OÜ	Total
Current assets	350	15	365
Non-current assets	8,624	0	8,624
Current liabilities	24,072	38	24,110
Equity	(15,097)	(24)	(15,121)
Revenue	0	0	0
Expenses	0	0	0
Profit	2,901	0	2,901
Carrying amount of investment	0	0	0

The group does not have a binding commitment to restore the negative equity of the company in Ukraine. Therefore, a relevant provision has not been recognised. At 31 December 2021, V.I. Center TOV's current liabilities included current liabilities to the group of €11,412 thousand (31 December 2020: €11,165 thousand).

2020

Summary financial information for associates presented as separate companies

€'000			
Company	V.I. Center TOV	Kastani Kinnisvara OÜ	Total
Current assets	305	14	319
Non-current assets	7,255	0	7,255
Current liabilities	23,575	28	23,603
Equity	(16,014)	(24)	(16,038)
Revenue	0	0	0
Expenses	0	0	0
Loss	(6,018)	0	(6,018)
Carrying amount of investment	0	0	0

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

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

€'000	Profit	Recorded in 2021		Recorded in 2020		
		In the group's profit or loss	Off the statement of financial position	In the group's profit or loss	Off the statement of financial position	
V.I. Center TOV	2,901	0	2,901	(6,018)	0	(6,018)
Kastani Kinnisvara OÜ	0	0	0	0	0	0
Total	2,901	0	2,901	(6,018)	0	(6,018)

NOTE 12. Investment property

€'000	2021	2020
Investment property at 1 January	5,639	5,530
Write-up of investment property	128	113
Write-down of investment property	(168)	(4)
Investment property at 31 December	5,599	5,639

In December 2018, Nordecon AS acquired an interest in the Ukrainian associate Technopolis-2 TOV. The entity owns a property in Shastliv village near Kiev, Ukraine. Based on a valuation report issued in 2021 by an independent internationally recognised appraiser, at 31 December 2021 the fair value of the property was €1,978 thousand. Based on the valuation result, the group recognised a fair value gain of €2 thousand in 2021 (2020: a fair value loss of €4 thousand). Based on the valuation of the fair value of the properties located in Estonia, the group recognised fair value gains of €126 thousand and fair value losses of €168 thousand (2020: gains of €113 thousand).

The period's rental income on investment property amounted to €6 thousand (2020: €12 thousand) and direct property management expenses totalled €3 thousand (2020: €3 thousand). Investment properties that do not generate rental income did not give rise to any significant property management expenses. Information about assets pledged as collateral for financial liabilities is provided in note 35.

The group measured the fair values of its investment properties using the discounted cash flow method (see note 2 for the description). The properties have approved detailed spatial plans and their intended purpose is commercial land and production land. The areas of the plots situated in Estonia are around 15 thousand and 42 thousand and the area of the plot situated in Ukraine is 45 thousand square metres and the areas of the buildings which will be built extend to 14 thousand, 20 thousand and 27 thousand square metres, respectively.

The key valuation inputs applied in the valuation of the properties were as follows:

- construction prices of around €490-780 per square metre, depending on the purpose of the building to be built (production and office buildings, respectively). The relatively low construction price of buildings to be built on commercial land results from their location, which sets lower functionality requirements;
- a discount rate of 13%;
- a vacancy rate of 5% for properties in Estonia and 30-40% for properties in Ukraine;
- an average rental price of €9-9.4 per square metre for commercial premises and €5.5 per square metre for production premises and warehouses (including a cold storage plant planned to be built in Ukraine);
- a forecast period of 2022-2029
- indexed growth in rental and other income of up to 2.5% per year (based on the group's past experience).

Under the fair value hierarchy provided in IFRS 13 *Fair Value Measurement*, the fair values of investment properties belong to level 3 because they were measured using unobservable inputs.

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

Potential impact of changes in estimates

According to the sensitivity analysis (assuming that all other variables remain constant):

- if rental prices decreased by 5% compared with the ones applied, the investment properties would have to be written down by around €1,276 thousand;
- if construction prices rose by 5% compared with the ones applied, the investment properties would have to be written down by around €890 thousand;
- if the discount rate rose by 1 percentage point, the investment properties would have to be written down by around €974 thousand.

NOTE 13. Property, plant and equipment

€'000	Land and buildings	Plant and equipment	Other items	Assets under construction, prepayments	Right-of- use assets	Total
Cost						
At 31 December 2019	2,653	17,020	4,750	389	14,893	39,705
Additions	86	248	195	28	1,982	2,539
Acquisition through business combinations	210	83	21	0	584	898
Disposals	0	(366)	(66)	0	(862)	(1,294)
Transfers from one class to another	0	708	0	(62)	(646)	0
Effect of movements in exchange rates	0	(22)	(6)	0	0	(28)
At 31 December 2020	2,949	17,671	4,894	355	15,951	41,820
Additions	17	184	209	20	2,861	3,291
Disposals	0	(1,264)	(308)	(18)	(514)	(2,104)
Transfers	219	1,014	680	(218)	(1,695)	0
Effect of movements in exchange rates	0	(3)	2	0	0	(1)
At 31 December 2021	3,185	17,602	5,477	139	16,603	43,006
Accumulated depreciation						
At 31 December 2019	698	15,577	2,780	0	1,648	20,703
Acquisition through business combinations	192	52	20	0	307	571
Depreciation for the year	209	497	156	0	2,546	3,408
Disposals	0	(439)	(112)	0	(363)	(914)
Transfers	(12)	521	(1)	0	(508)	0
Effect of movements in exchange rates	0	(1)	0	0	0	(1)
At 31 December 2020	1,087	16,207	2,843	0	3,630	23,767
Depreciation for the year	202	592	207	0	2,498	3,499
Disposals	0	(1,219)	(252)	0	(222)	(1,693)
Transfers	0	120	841	0	(961)	0
Effect of movements in exchange rates	0	(1)	1	0	0	0
At 31 December 2021	1,289	15,699	3,640	0	4,945	25,573
Carrying amount						
At 31 December 2019	1,955	1,443	1,970	389	13,245	19,002
At 31 December 2020	1,862	1,464	2,051	355	12,321	18,053
At 31 December 2021	1,896	1,903	1,837	139	11,658	17,433

The breakdown of right-of-use assets between classes of property, plant and equipment is presented in note 16.

Group entities have secured their liabilities by mortgaging their land and buildings. Information about assets pledged as collateral is provided in note 35.

Proceeds from the sale of property, plant and equipment totalled €489 thousand (see the statement of cash flows). In 2020, proceeds from the sale of property, plant and equipment totalled €332 thousand. Gain on the sale of property, plant and equipment amounted to €280 thousand (2020: €199 thousand) (note 30).

Depreciation expense has been recognised in the cost of sales in an amount of €2,621 thousand (2020: €2,520 thousand) (note 28) and in administrative expenses in an amount of €878 thousand (2020: €888 thousand) (note 29).

In 2021, the group signed new lease contracts of €2,997 thousand (2020: €1,564 thousand) (note 16).

NOTE 14. Intangible assets

€'000	Goodwill	Software licences	Trade-marks	Development expenditures	Pre-payments	Total
Cost						
At 31 December 2019	18,773	144	863	443	67	20,290
Additions	0	242	0	14	60	316
Disposals	0	(21)	0	0	(67)	(88)
At 31 December 2020	18,773	365	863	457	60	20,518
Additions	0	168	0	16	(60)	124
Disposals	0	0	0	0	0	0
At 31 December 2021	18,773	534	863	473	0	20,642
Accumulated amortisation and impairment losses						
At 31 December 2019	4,597	94	863	0	0	5,554
Amortisation for the year	0	20	0	0	0	20
Disposals	0	(22)	0	0	0	(22)
At 31 December 2020	4,597	92	863	0	0	5,552
Amortisation for the year	0	40	0	0	0	40
Disposals	0	0	0	0	0	0
At 31 December 2021	4,597	132	863	0	0	5,592
Carrying amount						
At 31 December 2019	14,176	50	0	443	67	14,736
At 31 December 2020	14,176	273	0	457	60	14,966
At 31 December 2021	14,176	402	0	473	0	15,051

Capitalised development expenditures result from preparations made for the extraction of sand from the seabed. The preparations will continue in 2022.

Amortisation has been recognised in administrative expenses in an amount of €40 thousand (2020: €20 thousand).

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 a subsidiary. Therefore, for the purpose of impairment testing subsidiaries represent the lowest level within the group at which goodwill is monitored for internal management purposes (cash-generating units, CGUs). 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 in the subsidiary (including goodwill).

Carrying amounts of goodwill allocated to the subsidiaries

Company	Interest 2021	Interest 2020	31 December	€'000 31 December
Nordecon AS				
Goodwill	-	-	11,973	11,973
Of which: Buildings			9,216	9,216
Infrastructure			2,757	2,757
Subsidiaries				
Nordecon Betoön OÜ	52%	52%	181	181
Kaurits OÜ	100%	100%	2,022	2,022
Total			14,176	14,176

General assumptions for determining value in use

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

- The forecast period was 2022-2025 plus the terminal year.
- The present value of future cash flows was found using the average weighted cost of capital (WACC) as the discount rate. The proportions of debt and equity capital used as weights were based on the relevant average capital structure indicators of similar companies (measured at market value), which according to the Damodaran database were 41% and 59%, respectively.
- The cost of debt was estimated based on the CGUs' actual loan interest rates, which ranged from 2.9% to 4.9%. The expected rate of return on equity was set at 15%.
- Changes in subsequent periods' revenues were projected on the basis of the CGUs' action plans for subsequent years (including the budgets approved by management for 2022) and an assessment of the market situation in the segment where the specific CGU operates.
- Changes in subsequent periods' gross margins were projected on the basis of the CGUs' action plans for subsequent years (including the budgets approved by management for 2022) and an assessment of the market situation in the segment where the specific CGU operates.
- Administrative expenses which affect operating cash flow were projected on the basis of the budgets approved by management for 2022.
- Changes in working capital investments were projected based on the expected revenue change against the comparative period. The absolute revenue change was used to estimate the portion (5%) that is expected to be needed for raising additional working capital upon revenue growth or to be released upon revenue decline.
- Changes in capital expenditures were projected on the basis of the investment budgets approved by management for 2022 and by applying to it growth rates suitable for subsequent years, estimated by reference to projections of the specific CGU's future operations.

Nordecon AS

Infrastructure

Assumptions applied

Forecast period	2022-2025 + terminal year
Discount rate	10.7%
Revenue change	2022: 28.2%, 2023-2025: compound annual growth rate (CAGR) 9.8%, terminal year: 1.0%
Gross margin	2022: based on budget, 2023-2025 and terminal year: 4.5%
Administrative expenses	See general assumptions, 2.5% of revenue
Working capital	See general assumptions
Capital expenditures	See general assumptions

Nordecon AS

Buildings

Assumptions applied

Forecast period	2022-2025 + terminal year
Discount rate	10.7%
Revenue change	2022: 18.7%, 2023-2025: compound annual growth rate (CAGR) 1.0%, terminal year: 1.0%
Gross margin	2022: based on budget, 2023-2025 and terminal year: 4.5%
Administrative expenses	See general assumptions, 2.5% of revenue
Working capital	See general assumptions
Capital expenditures	See general assumptions

Nordecon Betoön OÜ

Assumptions applied

Forecast period	2022-2025 + terminal year
Discount rate	10.0%
Revenue change	2022: 29%, 2023-2025: compound annual growth rate (CAGR) 3.3%, terminal year: 1.0%
Gross margin	2022: based on budget, 2023-2025 and terminal year: 5.5%
Administrative expenses	See general assumptions, 2022-2025 and terminal year 2.5% of revenue
Working capital	See general assumptions
Capital expenditures	See general assumptions

Kaurits OÜ

Assumptions applied

Forecast period	2022-2025 + terminal year
Discount rate	10.2%
Revenue change	2022: (19)%, 2023-2025: compound annual growth rate (CAGR) 4.9%, terminal year: 1.0%
Gross margin	2022: based on budget, 2023-2025 and terminal year: 7.0%
Administrative expenses	See general assumptions, 3.0% of revenue
Working capital	See general assumptions
Capital expenditures	See general assumptions, 2022-2025: continuing renewal of machinery fleet.

According to the results of impairment testing, there was no need to write goodwill down in 2021 or in 2020.

Potential impact of changes in estimates

The value in use of a CGU is compared with 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. Some differences between historical results and the assumptions used in the cash flow forecast may be attributable to projects that resulted in a significant loss or changes in different market segments. Management performed a sensitivity analysis that reflected how a change in discount rates, revenue and gross profit would affect the recoverable amount of goodwill.

The total value in use of the CGUs 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 discount rate does not exceed 0.5 percentage points for Kaurits OÜ, assuming all other variables remain constant. Other CGUs would not be affected by a change in the discount rate.

If revenue change proved 5 percentage points smaller, assuming all other variables remain constant, the goodwill allocated to Kaurits OÜ and Nordecon AS Buildings would have to be written down by €616 thousand and €233 thousand, respectively. The goodwill allocated to other CGUs would not have to be written down.

If the change in gross margin proved 1 percentage point smaller, assuming all other variables remain constant, the goodwill allocated to Kaurits OÜ would have to be written down by €1,290 thousand, the goodwill allocated to Nordecon AS Buildings would have to be written down by €5,377 thousand and the goodwill allocated to Nordecon AS Infrastructure would have to be written down by €490 thousand. The goodwill allocated to Nordecon Betoön OÜ would not have to be written down.

NOTE 15. Borrowings

Current borrowings

€'000	Note	31 December 2021	31 December 2020
Overdrafts		10,248	11,527
Current portion of non-current borrowings, of which:		6,041	6,981
Overdrafts		0	2,000
Bank loans		3,074	1,850
Lease liabilities	16	2,967	3,131
Total current borrowings		16,289	18,508

Non-current borrowings

€'000	Note	31 December 2021	31 December 2020
Total non-current borrowings		13,445	14,333
Of which current portion		6,041	6,981
Non-current portion, of which:		7,405	7,352
Bank loans		1,073	0
Overdrafts		0	827
Lease liabilities	16	6,332	6,524
Derivative financial instruments		0	1

The derivative contract for mitigating the risk of changes in interest rates expired in 2021. The contract was signed for the period 16 May 2016 – 16 April 2021. The nominal amount of the contract was €2,153 thousand. The group has not entered into any new derivative contracts.

Details of loans as at 31 December 2021:

€'000	Base	Interest rate	Up to 1	1-2	3-...	Total	Maturity
Loan type	currency		year	years	years	loan	date
Overdraft	€	4%	5,400	0	0	5,400	31 May 2022
Overdraft	€	5.5%	4,790	0	0	4,790	20 October 2022
Overdraft	€	4%	58	0	0	58	8 September 2022
Working capital loan	€	6M EURIBOR + 5.5%	1,224	1,073	0	2,297	10 October 2023
Investment loan	€	6M EURIBOR + 4.0%	1,850	0	0	1,850	5 June 2022
Total loans			13,322	1,073	0	14,39	

The group has to agree its dividend distributions with the banks that finance its operations.

Details of loans as at 31 December 2020:

€'000	Base	Interest rate	Up to 1	1-2	3-...	Total	Maturity
Loan type	currency		year	years	years	loan	date
Overdraft	€	Eonia +6.0%	2,000	827	0	2,827	30 October 2022
Overdraft	€	4%	5,011	0	0	5,011	30 May 2021
Overdraft	€	4%	311	0	0	311	8 September 2021
Overdraft	€	Eonia +6.0%	5,790	0	0	5,790	29 January 2021
Overdraft	€	Eonia + 3.1%	415	0	0	415	29 January 2021
Investment loan	€	6M EURIBOR + 4.0%	1,850	0	0	1,850	5 June 2021
Total loans			15,377	827	0	16,204	

Reconciliation of financial liabilities to cash flows:

€'000	Note	2021	2020
Balance of financial liabilities at beginning of year		25,860	27,384
Proceeds from loans received		1,922	2,026
Repayments of loans received		(3,766)	(2,629)
Payments of the principal portion of lease liabilities	16	(3,318)	(3,086)
Addition of lease liabilities (new leases)	16	2,997	2,169
Change in the value of derivatives		(1)	(4)
Balance of financial liabilities at end of year		23,694	25,860

NOTE 16. Right-of-use assets and lease liabilities

The group leases different buildings and commercial premises and cars. Most leases have been signed for a fixed period (five years on average) and, as a rule, include extension and termination options. Lease terms are negotiated on a lease by lease basis and they may differ. The leases include the option to extend the lease at the end of the lease term.

Right-of-use assets

€'000	Note	Land and buildings	Plant and equipment	Other items	Total
Cost					
At 31 December 2019		2,497	12,197	199	14,893
Additions		150	1,815	17	1,982
Acquisition through business combinations		126	458	0	584
Disposals		0	(862)	0	(862)
Transfers to property, plant and equipment		0	(430)	(216)	(646)
At 31 December 2020		2,773	13,178	0	15,951
Additions		62	2,777	22	2,861
Disposals		0	(514)	0	(514)
Transfers to property, plant and equipment		0	(1,695)	0	(1,695)
At 31 December 2021		2,835	13,746	22	16,603
Accumulated depreciation					
At 31 December 2019		106	1,516	26	1,648
Acquisition through business combinations		33	274	0	307
Depreciation for the year		449	2,080	17	2,546
Disposals		0	(363)	0	(363)
Transfers to property, plant and equipment		0	(465)	(43)	(508)
At 31 December 2020		588	3,042	0	3,630
Acquisition through business combinations		0	0	0	0
Depreciation for the year		571	1,921	6	2,498
Disposals		0	(222)	0	(222)
Transfers to property, plant and equipment		0	(961)	0	(961)
At 31 December 2021		1,159	3,780	6	4,945
Carrying amount					
At 31 December 2019		2,391	10,681	173	13,245
At 31 December 2020		2,185	10,136	0	12,321
At 31 December 2021		1,676	9,966	16	11,658

Lease liabilities

The group as a lessee

€'000	Note	2021	2020
Lease liabilities at beginning of year		9,655	10,572
Acquisition through business combinations		0	605
Addition		2,997	1,564
Offsetting	15	(35)	0
Payments of the principal portion of lease liabilities		(3,318)	(3,086)
Lease liabilities at end of year, of which falling due:		9,299	9,655
Not later than 1 year	15	2,967	3,131
Later than 1 year and not later than 5 years	15	6,332	6,524
Base currency €		9,299	9,655
Interest rate for contracts denominated in €*		1.9-4.2%	2.3-3.5%
Weighted average interest rate		2.8%	2.7%
Interest expense of the period		300	320
Cash outflows related to leases		(3,618)	(3,406)

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

Under existing contracts, estimated minimum future lease rentals are payable as follows:

€'000	2021			2020		
	Minimum lease payments*	Interest	Present value of minimum lease payments	Minimum lease payments*	Interest	Present value of minimum lease payments
Payable						
Not later than 1 year	3,201	234	2,967	3,374	243	3,131
Later than 1 year and not later than 5 years	6,611	279	6,332	6,851	327	6,524
Total	9,812	513	9,299	10,225	570	9,655

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

Short-term leases and leases for which the underlying asset is of low value are recognised as an expense on a straight-line basis over the lease term. Short-term leases are leases with a lease term of 12 months or less.

Short-term leases recognised in profit or loss

€'000	
2021 – Leases under IFRS 16	
Interest expense on leases	300
Lease expenses on leases of low-value assets and short-term leases	9,760
2020 – Leases under IFRS 16	
Interest expense on leases	320
Lease expenses on leases of low-value assets and short-term leases	7,013

The minimum amount of future lease payments under non-cancellable leases has been calculated taking into account the non-cancellable periods of the leases and the contractually agreed growth in lease payments.

The leases do not include purchase options. The leases can be terminated early without any significant penalties, provided notice is given as agreed in the contracts.

NOTE 17. Trade payables

€'000	Note	31 December 2021	31 December 2020
Trade payables		44,752	34,678
Accrued expenses related to contract work		12,400	12,196
Payables to related parties	36	172	516
Total current trade payables	33	57,324	47,390
Trade payables	33	4,178	2,332
Total non-current trade payables		4,178	2,332

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 18. Other payables

€'000	Note	31 December 2021	31 December 2020
Payables to employees	33	4,094	5,594
Taxes payable		2,708	4,280
Dividends payable		14	1,905
Accrued expenses	33	44	11
Miscellaneous payables	33	599	24
Total current other payables		7,459	11,814

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

Accrued expenses include mainly interest accrued on loan liabilities.

Taxes payable

€'000	31 December 2021	31 December 2020
Value added tax	722	2,059
Personal income tax	484	522
Social security tax	831	874
Other taxes	411	564
Deferred income tax liability	260	262
Total taxes payable	2,708	4,281

NOTE 19. Deferred income

€'000	Note	31 December 2021	31 December 2020
Due to customers for contract work	25	4,179	2,200
Advances received for goods and services		7,360	5,538
Total deferred income		11,539	7,738

NOTE 20. Provisions

€'000	31 December 2021	31 December 2020
Current provisions	707	1,059
Non-current provisions	2,044	1,647
Total provisions	2,751	2,706

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 two to three years and in the case of road construction for two to five years after the date of delivery.

Warranty provisions (€'000)	2021	2020
Opening balance	1,309	1,314
Acquisition through business combinations	0	579
Provisions used and reversed	(1,020)	(1,193)
Provisions recognised	1,046	609
Closing balance, of which:	1,335	1,309
Current portion	421	457
Non-current portion	914	852
Rehabilitation provisions (€'000)	2021	2020
Opening balance	1,017	821
Provisions used and reversed	(34)	(8)
Provisions recognised	297	204
Closing balance, of which:	1,280	1,017
Current portion	150	222
Non-current portion	1,130	795

Rehabilitation provisions have been recognised for the post-closure costs of quarries used for the extraction of road construction materials. Rehabilitation provisions are used in accordance with the plans for closing the quarries.

Other provisions (€'000)	2021	2020
Opening balance	380	6
Provisions recognised	136	517
Provisions used	(380)	(143)
Closing balance, of which:	136	380
Current portion	136	380
Non-current portion	0	0

Other provisions comprise provisions for resource charges, known legal costs and claims, and onerous construction contracts in progress. At 31 December 2021, the provision for onerous construction contracts amounted to €136 thousand (31 December 2020: €75 thousand).

NOTE 21. Equity

Share capital

€'000	2021	2020
At 1 January	14,379	14,379
At 31 December	14,379	14,379

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

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 to cover losses, if losses cannot be covered with retained earnings and the statutory capital reserve, and to increase share capital through a bonus issue.

Capital reserve

The Estonian Commercial Code requires companies to set up a capital reserve. Each year at least one twentieth of profit for the year has to be transferred to the capital reserve until the reserve amounts to one tenth of share capital. The capital reserve may be used to cover losses and to increase share capital but not to make distributions to shareholders. At the reporting date, the capital reserve stood at €2,554 thousand (31 December 2020: €2,554 thousand).

Translation reserve

The translation reserve comprises foreign exchange differences on the translation of the financial statements of foreign subsidiaries whose functional currency differs from the group's presentation currency. At the reporting date, the translation reserve stood at €1,948 thousand (31 December 2020: €2,423 thousand). The change is attributable to movements in the exchange rates of the Ukrainian and Swedish subsidiaries' functional currencies against the euro.

Dividends

The extraordinary general meeting held on 22 December 2020 decided to distribute a dividend of €0.06 per share from retained earnings as at 31 December 2019. The total dividend amounted to €1,889 thousand and it was paid out to the shareholders on 23 March 2021.

The extraordinary general meeting held on 1 June 2021 decided to distribute a dividend of €0.06 per share from retained earnings as at 31 December 2020. The total dividend amounted to €1,889 thousand and it was paid out to the shareholders on 29 September 2021 (note 5).

NOTE 22. Earnings per share

Basic earnings per share are calculated by dividing the profit or loss 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 or loss 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.

	2021	2020
Profit (loss) for the year attributable to owners of the parent (€'000)	(6,310)	2,466
Weighted average number of shares outstanding during the period (in thousands)	31,528	31,528
Basic earnings per share (€)	(0.20)	0.08
Diluted earnings per share (€)	(0.20)	0.08

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

NOTE 23. Share-based payments

The 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 to enable the executive management to benefit from their contribution to growth in the value of the company's share. Under the plan, Nordecon AS granted options for acquiring a total of 1,618 thousand ordinary shares in Nordecon AS. The options could be exercised when three years had passed since the signature of the option agreement but not before the company's general meeting had approved the company's annual report for 2016.

To satisfy the terms and conditions of the option plan, in July 2014 Nordecon AS issued a total of 1,618 thousand new shares with a total cost of €1,582 thousand, increasing share capital by €1,035 thousand to €20,692 thousand, and acquired the same number of own (treasury) shares at the same price.

The annual general meeting that convened on 24 May 2017 adopted some amendments to the share option plan. The term for exercising a share option was extended. An option could be exercised within 15 months after the general meeting had approved Nordecon AS's annual report for 2016. In addition, the conditions for exercising the options granted to persons who at the grant date were members of the board were amended.

The annual general meeting that convened on 23 May 2018 adopted some amendments to the share option plan which grant Nordecon AS's chairman of the board the right to acquire up to 200,000 shares and each member of the board the right to acquire up to 129,500 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 general meeting has approved the company's annual report for 2020.

Exercise of the options is linked to the achievement of the group's EBITDA target for 2020 (from €6,083 thousand to €12,167 thousand).

At 31 December 2021, options for the acquisition of 229,857 shares had been exercised, options for the acquisition of 1,299,907 shares had expired and options for the acquisition of 88,991 shares were still exercisable.

NOTE 24. Segment reporting

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
- Infrastructure

Reportable operating segments are engaged in the provision of construction services in the buildings (also includes the group's own development activities) and infrastructure segments.

Preparation of segment reporting

The chief operating decision maker reviews inter-segment transactions separately and analyses their proportion in segment revenue. Respective figures are separately outlined in segment reporting. Information on the proportion of revenue earned on transactions with the largest customer is disclosed in the *Credit risk* section of note 5.

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

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

2021

€'000

	Note	Buildings	Infrastructure	Total
Total revenue		216,070	72,200	288,270
Inter-segment revenue		0	(85)	(85)
Revenue from external customers	27	216,070	72,115	288,185
Gross profit of the segment		4,250	712	4,962
Depreciation and amortisation		(668)	(2,264)	(2,932)
Segment assets		103,185	25,761	128,946
Capital expenditures		515	2,698	3,213

2020

€'000

	Note	Buildings	Infrastructure	Total
Total revenue		228,515	67,733	296,248
Inter-segment revenue		0	(591)	(591)
Revenue from external customers	27	228,515	67,142	295,657
Gross profit of the segment		8,327	3,396	11,723
Depreciation and amortisation		(699)	(2,177)	(2,876)
Segment assets		99,800	27,772	127,572
Capital expenditures		761	1,569	2,330

Revenue from the Transport Administration in an amount of €38,810 thousand, recognised using the stage of completion method, accounted for over 10% of the group's revenue for 2021 (2020: revenue from the Transport Administration of €37,065 thousand accounted for over 10%). Revenue from the Transport Administration is reported in the Infrastructure segment.

The revenue and gross profit of the Buildings segment include revenue and gross profit from the group's own development activities, which in 2021 amounted to €3,097 thousand and €562 thousand, respectively (2020: €2,866 thousand and €311 thousand, respectively).

The group's construction contract revenue for 2021 amounted to €280,073 thousand (2020: €286,709 thousand).

Reconciliation of segment revenues

€'000

	2021	2020
Total revenues for reportable segments	288,270	296,248
Elimination of inter-segment revenues	(85)	(591)
Reportable segments' unallocated revenue	349	425
Total consolidated revenue	288,534	296,082

Reconciliation of segment profit

€'000

	2021	2020
Total profit for reportable segments	4,962	11,723
Reportable segments' unallocated loss	(941)	(727)
Consolidated gross profit	4,021	10,996
Unallocated expenses:		
Marketing and distribution expenses	(559)	(528)
Administrative expenses	(6,053)	(7,073)
Other operating income and expenses	(1,745)	180
Consolidated operating profit (loss)	(4,336)	3,575
Finance income	958	2,995
Finance costs	(1,320)	(2,678)
Share of profit of equity-accounted investees	0	734
Consolidated profit (loss) before tax	(4,698)	4,626

Reportable segments' unallocated revenue and loss result, to a significant extent, from design and geodetic surveying services which are provided by both the Buildings and the Infrastructure segment.

Reconciliation of segment assets

€'000

	31 December 2021	31 December 2020
Total assets of reportable segments	128,946	127,572
Investments in equity-accounted investees	0	0
Inter-segment eliminations	0	0
Unallocated assets	6,125	7,503
Total consolidated assets	135,071	135,075

Geographical information

Revenue (€'000)	2021	2020
Estonia	272,051	241,674
Ukraine	4,263	4,283
Finland	8,293	17,359
Sweden	126	32,766
Latvia	3,801	0
Total revenue	288,534	296,082
Assets based on geographical location* (€'000)	2021	2020
Estonia	21,488	36,632
Ukraine	2,017	2,025
Total assets	23,505	38,657

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

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

NOTE 25. Construction contracts in progress

Financial information on construction contracts in progress at the reporting date

Construction contracts in progress

from date of commencement of the projects (€'000)	31 December 2021	31 December 2020
Contract costs recognised using the stage of completion method	207,407	205,937
Estimated gross profit	7,715	10,759
Contract revenue recognised using the stage of completion method	215,121	216,697
Progress billings	208,721	203,923
Difference between total progress billings and revenue recognised using stage of completion method	(6,400)	(12,774)
Of which due from customers (note 8)	10,579	14,974
Of which due to customers (note 19)	4,179	2,200

Significant changes in amounts due from and due to customers

€'000

	Due from customers	Due to customers
Balance at 1 January 2020	6,874	6,384
Acquisition through business combinations	504	228
Revenue recognised during the period which at the beginning of the period was recognised in the balance of due to customers	-	(6,531)
Receivables recognised during the period which at the beginning of the period were recognised in the balance of due from customers	(6,427)	-
Remaining difference between revenue recognised and progress billings	14,023	2,119
Balance at 31 December 2020	14,974	2,200
Revenue recognised during the period which at the beginning of the period was recognised in the balance of due to customers	-	(2,168)
Receivables recognised during the period which at the beginning of the period were recognised in the balance of due from customers	(14,285)	-
Remaining difference between revenue recognised and progress billings	9,890	4,146
Balance at 31 December 2021	10,579	4,179

At the reporting date, retentions receivable under construction contracts totalled €6,063 thousand (31 December 2020: €2,117 thousand) (note 8).

Out of the order book, which at 31 December 2021 stood at €266,856 thousand, 81% will realise in 2022 and 19% in 2023 and later.

NOTE 26. Participation in joint operations

The group participates in joint operations which 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 in construction activities, the associated liabilities, the expenses incurred and the revenue earned in accordance with the business entity principle and no adjustments or other consolidation procedures are performed in preparing the consolidated financial statements. The construction of the Vanessa wind farm takes place in Latvia, other joint operations are in Estonia.

Name of joint operation €'000	The group's interest		Total value of contract	
	2021	2020	2021	2020
Porto Franco commercial and business building, concrete works	50%	50%	5,335	5,281
Commercial buildings at Jahu 4/Suur-Patarei 13	39%	50%	21,240	15,878
Raadamõisa housing estate, phases 1 and 2	50%	50%	6,550	6,549
Porto Franco commercial and business building, concrete works	-	50%	-	7,581
Vanessa wind farm	38%	-	13,961	-
Porto Franco H4 construction works	50%	-	7,652	-

NOTE 27. Revenue

2021

€'000

	Buildings	Infrastructure	Total
Revenue from contracts with customers	216,070	72,200	288,270
Of which: general contracting services	204,692	53,171	257,863
subcontracting services	8,281	13,929	22,210
own development activities	3,097	0	3,097
road maintenance services	0	3,814	3,814
rental services	0	1,285	1,285
Inter-segment revenue	0	(84)	(84)
Total revenue	216,070	72,115	288,185

2020

€'000

Revenue from contracts with customers	227,165	67,142	294,307
Of which: general contracting services	211,852	58,088	269,940
subcontracting services	12,447	4,322	16,769
own development activities	2,866	0	2,866
road maintenance services	0	3,332	3,332
rental services	0	1,400	1,400
Other revenue	1,350	0	1,350
Of which: investment property	1,350	0	1,350
Total revenue	228,515	67,142	295,657

NOTE 28. Cost of sales

€'000

	2021	2020
Cost of materials, goods and services	259,320	258,920
Personnel expenses	22,019	23,062
Depreciation expense (note 13)	2,621	2,520
Other expenses	553	584
Total cost of sales	284,513	285,086

In 2021, the group had, on average, 685 staff (2020: 708) of whom 643 were working under employment contracts, 23 were working under service contracts (i.e. contracts under the law of obligations; excluding self-employed people) and 19 were members of legal persons' management or control bodies (2020: 673, 16 and 19, respectively).

NOTE 29. Administrative expenses

€'000	2021	2020
Cost of materials, goods and services	1,959	1,947
Personnel expenses	2,973	3,995
Depreciation and amortisation expense (notes 13 and 14)	918	908
Other expenses	203	223
Total administrative expenses	6,053	7,073

NOTE 30. Other operating income and expenses

Other operating income

€'000	Note	2021	2020
Gain on sale of property, plant and equipment	13	280	199
Gain on sale of real estate		28	19
Gain from bargain purchases		0	139
Other income		211	96
Total other operating income		519	453

Other operating expenses

€'000	Note	2021	2020
Loss on sale and write-off of property, plant and equipment		8	7
Net loss on recognition and reversal of impairment losses on receivables	33	2,144	157
Foreign exchange loss		0	48
Other expenses		112	61
Total other operating expenses		2,264	273

NOTE 31. Finance income and costs

Finance income

€'000	2021	2020
Interest income on loans provided	213	225
Gain on disposal of an associate	0	2,749
Foreign exchange gain	731	1
Other finance income	14	20
Total finance income	958	2,995

Interest income on loans provided for the reporting period comprises interest income on loans provided to related parties of €213 thousand (2020: €217 thousand) (note 36).

Foreign exchange gain for 2021 of €731 thousand comprises the exchange gain on the translation of the loans provided to the Ukrainian and Swedish subsidiaries in euros into the local currency. In 2020, the group incurred an exchange loss of €1,509 thousand.

Finance costs

€'000	2021	2020
Interest expense	982	1,078
Foreign exchange loss	0	1,509
Other finance costs	338	91
Total finance costs	1,320	2,678

NOTE 32. Income tax expense

€'000	2021	2020
Profit (loss) for the year	(5,506)	4,118
Income tax expense on dividends	(810)	(246)
Deferred tax liability	2	(262)
Profit (loss) before tax	(4,698)	4,626
Income tax using the tax rate of the parent company	(1)	(262)
Income tax on dividends distributed by Estonian group entities	(767)	(195)
Income tax in foreign jurisdictions	(40)	(51)
Total income tax expense	(808)	(508)

Income tax payable on dividends is recognised as income tax expense in the statement of comprehensive income and as a deferred tax liability in the statement of financial position to the extent of the planned dividend. The obligation to pay income tax arises on the 10th day of the month following the distribution of the dividend.

A deferred tax liability of €261 thousand has been recognised in the statement of financial position as at 31 December 2021 (31 December 2020: €262 thousand).

At 31 December 2021, subsidiaries' and associates' temporary differences totalled €16,751 thousand (31 December 2020: €20,148 thousand). In 2021, the group's Estonian subsidiaries paid a net dividend of €4,952 thousand, which gave rise to income tax expense of €767 thousand (2020: €1,792 thousand and €267 thousand, respectively). The share of dividends paid to non-controlling interests amounted to €1,236 thousand (2020: €472 thousand).

NOTE 33. Financial instruments and financial risk management**Credit risk****The group's maximum credit risk exposure at the reporting date**

€'000	Note	2021	2020
Cash and cash equivalents	7	9,031	12,576
Trade receivables	8	31,160	32,331
Retentions receivable	8	6,063	2,117
Receivables from related parties	8	539	793
Loans to related parties	8	8,481	8,237
Other receivables	8	475	231
Due from customers for contract work	8	10,579	14,974
Total		66,328	71,259

Receivables from third parties are unsecured, except for a loan with a carrying value of €8,481 thousand (31 December 2020: €8,237 thousand) provided to V.I. Center TOV, which is secured with the property held by the entity (note 8). According to the group's assessment, based on a very low share of credit losses, the credit risk of receivables not past due and receivables past due but not written down is low. The group's customers include predominantly public sector entities and large companies that have adequate creditworthiness. Among credit institutions, the group's main business partners are Swedbank AS, Luminor Bank AS, SEB Pank AS and Coop Pank AS. Swedbank AS and SEB Pank AS do not have separate credit ratings. Swedbank AS's parent Swedbank AB has Moody's long-term credit rating Aa3. SEB Pank AS's parent Skandinaviska Enskilda Banken AB has Moody's long-term credit rating Aa2. Luminor Bank AS has Moody's credit rating Baa3 and Coop Pank AS has Moody's credit rating Baa2.

Financial assets by geographical origin at the reporting date

€'000	2021	2020
Estonia	54,466	57,665
Ukraine	9,415	9,371
Sweden	490	2,966
Lithuania	0	4
Finland	1,957	1,253
Total	66,328	71,259

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

€'000	31 December		31 December 2020	
	Trade receivables	Impairment allowance	Trade receivables	Impairment allowance
Not past due	27,019	0	26,971	0
0-30 days past due	1,805	0	2,121	0
31-180 days past due	377	0	241	0
Over 180 days past due*	2,505	(546)	3,151	(153)
Total	31,706	(546)	32,484	(153)

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

Changes in the impairment allowance for receivables

€'000	2021	2020
Impairment allowance at 1 January	(153)	(55)
Impairment losses recognised during the year	(2,144)	(157)
Items written off as uncollectible during the year	1,751	59
Impairment allowance at 31 December	(546)	(153)

In 2021, recognition of impairment losses on receivables and recovery of previously impaired items gave rise to a net loss of €2,144 thousand (2020: €157 thousand) (note 30). Impairment losses comprise impairment losses on receivables from Swedish customers of €2,108 thousand and impairment losses on a number of small receivables.

During the year, receivables of €1,751 thousand that had been written down in earlier periods were written off as uncollectible (2020: €59 thousand).

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

€'000	31 December 2021					
	Carrying amount	Contractual cash flows	Up to 6 months	6-12 months	1-2 years	More than 3 years
Financial liability*						
Overdrafts (note 15)	10,248	10,555	5,491	5,064	0	0
Bank and other loans (note 15)	4,147	4,507	2,613	715	1,179	0
Lease liabilities (note 16)	9,299	9,812	1,788	1,413	4,538	2,073
Trade payables (note 17)	61,502	61,502	51,734	5,590	4,178	0
Other payables (note 18)	7,459	7,459	7,459	0	0	0
Total	92,655	93,835	69,085	12,782	9,895	2,073

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

€'000	31 December 2020					
	Carrying amount	Contractual cash flows	Up to 6 months	6-12 months	1-2 years	More than 3 years
Financial liability*						
Overdrafts (note 15)	14,354	14,815	12,250	1,696	868	0
Bank and other loans (note 15)	1,850	1,882	1,882	0	0	0
Lease liabilities (note 16)	9,655	10,225	2,107	1,268	3,929	2,922
Trade payables (note 17)	49,721	49,721	46,533	489	2,699	0
Other payables (note 18)	11,814	11,814	11,814	0	0	0
Total	87,394	88,457	74,586	3,453	7,496	2,922

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

The group does not expect that the liabilities will be settled before maturity or that cash flows will differ from contractual ones.

At the reporting date the group had access to the following overdraft facilities:

- an overdraft facility of €1,069 thousand with a fixed interest rate of 4.0% per year;
- an overdraft facility of €210 thousand with a fixed interest rate of 5.5% per year;
- an overdraft facility of €542 thousand with a fixed interest rate of 4.0% per year.

Financial liabilities by geographical origin at the reporting date

€'000	2021	2020
Estonia	88,843	80,913
Ukraine	370	1,852
Sweden	2,966	3,769
Lithuania	1	1
Finland	475	859
Total	92,655	87,394

Guarantee commitments accounted for off the statement of financial position

At the reporting date, banks had issued on behalf of the group construction-related guarantees of €45,605 thousand (2020: €40,227 thousand). The maturities of the guarantees extend to 2026. According to management's estimates, at the reporting date the risk that the guarantees will be called upon was low. During the period, no bank guarantees issued on behalf of the group were called upon due to breach of obligations arising from construction activities. In 2020, one guarantee issued by a bank was called upon in the amount of €799 thousand.

Currency risk

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

	31 December 2021		
'000	€	SEK	UAH
Cash and cash equivalents	8,927	56	3,041
Current receivables	51,151	5,486	41,803
Non-current receivables	9,206	0	0
Total	69,284	5,542	44,844
Current liabilities	88,911	28,246	51,066
Non-current liabilities	13,627	0	0
Total	102,538	28,246	51,066
Net exposure	(33,254)	(22,704)	(6,222)

	31 December 2020		
'000	€	SEK	UAH
Cash and cash equivalents	12,500	214	1,907
Current receivables	47,964	32,051	52,415
Non-current receivables	8,654	0	0
Total	69,118	32,265	54,322
Current liabilities	80,354	39,423	75,978
Non-current liabilities	11,331	0	0
Total	91,685	39,423	75,978
Net exposure	(22,567)	(7,158)	(21,656)

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

	Date	Swedish krona (SEK)	Ukrainian hryvnia (UAH)
€1	31 December 2021	10.2503	30.9226
€1	31 December 2020	10.0343	34.7396

Potential impact of changes in estimates

The group estimated how the weakening or strengthening of the group's presentation currency, the euro, against the currencies of foreign currency receivables and liabilities and cash and cash equivalents in the group's statement of financial position as at the end of the reporting period would affect the group's profit or loss for the year and equity at the reporting date. The analysis assumed that all other variables remain constant.

€'000	31 December 2021	31 December 2020
Strengthening of euro by 10%	220	122
Weakening of euro by 10%	(268)	(149)

Interest rate risk

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

€'000	2021	2020
Financial instruments with a fixed interest rate		
Financial assets (loans provided to related parties and legal persons) (note 8)	8,481	8,237
Financial liabilities (note 15)	10,248	5,322
Net exposure	(1,767)	2,915
Financial instruments with a floating interest rate		
Financial assets (cash and cash equivalents) (note 7)	9,031	12,576
Financial liabilities (including lease liabilities) (notes 15 and 16)	13,446	20,537
Net exposure	(4,415)	(7,961)

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

	31 December 2021	31 December 2020
3 month EURIBOR	(0.572)%	(0.545)%
6 month EURIBOR	(0.546)%	(0.526)%
EONIA	(0.505)%	(0.498)%
Bank's base rate	-	0.275%

Potential impact of changes in estimates

An increase or a decrease of 100 basis points in the variable components of the interest rates at the reporting date would increase or reduce subsequent periods' interest expense on interest-bearing financial liabilities by €228 thousand (2020: €213 thousand). 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**

€'000	2021		2020	
	Carrying amount	Fair value	Carrying amount	Fair value
Cash and cash equivalents (note 7)	9,031	9,031	12,576	12,576
Trade receivables (note 8)	31,160	31,160	32,331	32,331
Retentions receivable (note 8)	6,063	6,063	2,117	2,117
Due from customers (note 8)	10,579	10,579	14,974	14,974
Receivables from related parties (notes 8 and 36)	539	539	793	793
Loans to related parties (notes 8 and 36)	8,481	8,481	8,237	8,237
Other receivables (note 8)	475	475	231	231
Overdrafts (note 15)	(10,248)	(10,248)	(14,354)	(14,354)
Bank and other loans (note 15)	(4,147)	(4,147)	(1,850)	(1,850)
Lease liabilities (notes 15 and 16)	(9,299)	(9,299)	(9,655)	(9,655)
Trade payables (note 17)	(61,330)	(61,330)	(49,206)	(49,206)
Payables to related parties (notes 17 and 36)	(172)	(172)	(516)	(516)
Other payables (note 18)	(4,751)	(4,751)	(7,534)	(7,534)

The carrying amounts of the group's short-term financial assets and liabilities do not differ significantly from their fair values. The carrying amount of loans to related parties is based on the fair value of a property held by the associate. Therefore, their fair value equals their carrying amount. The carrying amounts of long-term floating-rate assets and liabilities approximate their fair values because the variable component of the interest rates reflects the change in market interest rates. Based on the fair value measurement inputs, the fair values of bank and other loans belong to level 2 in the fair value hierarchy established in IFRS 13 *Fair Value Measurement*. The fair values of loans to related parties belong to level 3 (note 5).

NOTE 34. Contingent liabilities**Contingent income tax liability**

€'000	31 December 2021	31 December 2020
Retained earnings of the group	6,341	14,543
Maximum possible income tax liability	(1,015)	(2,728)
Maximum amount that could be distributed as the net dividend	5,326	11,815

The maximum possible income tax liability has been calculated on the assumption that the net dividend and the resulting income tax expense may not exceed consolidated retained earnings as at the end of the reporting period. The maximum possible income tax liability that would arise in 2022 if all of the retained earnings as at the reporting date were distributed has been calculated by applying a 14% tax rate (to the extent of one third of the profit distributed and taxed in 2019 and 2021) and a 20% tax rate.

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. 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, the guarantees provided by banks to secure group entities' commitments under construction contracts totalled €45,605 thousand (31 December 2020: €40,227 thousand).

Surety commitments

Due to the expiry of underlying obligations, the group had no surety commitments at the reporting date.

Benefits payable to members of the board on the expiry of their service contracts

Under their service contracts, members of the board are eligible to benefits when their service contracts expire (for a member of the board in an amount of up to six-fold and for the chairman of the board in an amount of up to 12-fold average monthly service fee including performance-related pay). In addition, members of the board will be paid benefits for observing the prohibition on competition after their service contracts expire (for a member of the board up to six-fold and for the chairman of the board up to 12-fold average monthly service fee together with performance-related pay). The payment of the benefits is justified because board members are subject to a prohibition on competition which restricts their activities during the period for which the benefits are paid. At 31 December 2021, the maximum contingent liability that could have arisen from the realisation of the obligation to pay benefits on the expiry of service contracts and for observing the prohibition on competition amounted to €540 thousand.

NOTE 35. Assets pledged as collateral

The group has secured its financial liabilities with commercial pledges, mortgages, share pledges and other collateral.

Commercial pledges

At the reporting date, the parent and the subsidiaries had pledged their movable property under commercial pledges which totalled €50,979 thousand (31 December 2020: €47,829 thousand).

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

Mortgages

At the reporting date, the total value of mortgages encumbering the group's immovable property (plots and buildings) was €19,317 thousand (31 December 2020: €17,988 thousand). The parent and the subsidiaries have mortgaged assets of the following classes:

Line item in the statement of financial position (€'000)	31 December 2021	31 December 2020
Inventories	9,912	8,583
Investment property	639	639
Property, plant and equipment (land and buildings)	780	780
Mortgages that cannot be linked to a specific asset class*	7,986	7,986
Total	19,317	17,988

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

Share pledges

The group's borrowings as at 31 December 2021 and 31 December 2020 were secured with a pledge of the shares in Tariston AS (100%) and as at 31 December 2021 with a pledge of 845 thousand own (treasury) shares of Nordecon AS.

Other collateral

At 31 December 2021, the group had secured its financial liabilities with a security deposit of €250 thousand and a pledge of its extraction permits with a value of €4,527 thousand.

NOTE 36. Transactions with related parties

The group considers parties to be related if one controls the other or has significant influence over 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 the AS Nordic Contractors group
- Equity-accounted investees (associates and joint ventures) of the Nordecon group
- Members of the board and council of Nordecon AS, their close family members and companies related to them
- Individuals whose shareholding implies significant influence.

The group's purchase and sales transactions with related parties

€'000 Counterparty	2021		2020	
	Purchases	Sales	Purchases	Sales
AS Nordic Contractors	509	0	253	0
Companies of AS Nordic Contractors group	231	8	2,147	11
Companies related to owners of AS Nordic Contractors	740	0	321	0
Associates	0	0	1,201	313
Companies related to members of the council	89	781	89	0
Total	1,569	789	4,011	324

€'000 Counterparty	2021		2020	
	Purchases	Sales	Purchases	Sales
Construction services	0	781	1,201	21
Transactions with goods	740	0	321	0
Lease and other services	546	8	406	11
Other transactions	283	0	2,083	292
Total	1,569	789	4,011	324

Receivables from and liabilities to related parties at period-end (notes 8 and 17):

€'000	31 December 2021		31 December 2020	
	Receivables	Liabilities	Receivables	Liabilities
AS Nordic Contractors	0	16	0	15
Companies related to owners of AS Nordic Contractors	130	135	0	58
Companies of AS Nordic Contractors group	406	21	492	411
Associates – receivables and liabilities	3	0	2	32
Associates – loans and interest	8,481	0	8,237	0
Total	9,020	172	8,731	516

Receivables from and liabilities to associates result from ordinary business operations. Receivables and liabilities are settled on time.

Loan principal and accrued interest receivable from related parties (note 8):

€'000	Related party	Interest rate	Currency	31 December 2021		31 December 2020		
				Loan	Of which interest	Loan	Of which interest	
V.I. Center TOV	Associate	3.0%	€	8,481	1,318	8,237	1,114	
Total				8,481	1,318	8,237	1,114	
				Of which non-current portion (note 8)	8,481	1,318	8,237	1,114

During the period, the group recognised interest income on the loan to the associate of €213 thousand (2020: €217 thousand) (note 31). The loan is secured with a mortgage of €7,000 thousand (note 8).

Other transactions with related parties

In the reporting period, the group paid Nõmme Private Education Foundation sponsor support of €83 thousand (2020: €83 thousand). The foundation is related to a member of the group's council.

In 2020, the group purchased a property at Pikksilma 11 in Tallinn designed for housing development from a company of the AS Nordic Contractors group. The purchase price of the property was €2,000 thousand, of which €402 thousand was outstanding at 31 December 2021.

In 2021, the group did not receive any dividends from associates (2020: €974 thousand). Information about the dividends paid by the group is disclosed in note 21.

Remuneration of the council and the board

The service fees of the members of the council of Nordecon AS for 2021 amounted to €150 thousand and associated social security charges totalled €50 thousand (2020: €165 thousand and €54 thousand, respectively).

The service fees of the members of the board of Nordecon AS amounted to €369 thousand and associated social security charges totalled €122 thousand (2020: €432 thousand and €143 thousand, respectively).

Information about share options granted to the members of the board is disclosed in note 23.

NOTE 37. Events after the reporting period

Restructuring of the group's Swedish subsidiary Swencn AB

On 22 July 2021, Swencn AB filed an application with the Nacka District Court in Stockholm, Sweden, to initiate corporate restructuring proceedings. Through restructuring, Swencn AB wants to overcome the difficulties in paying bills, restructure creditors' claims and improve its liquidity. Nacka District Court initiated the restructuring proceedings on 22 July 2021 and the first meeting of the creditors, where Swencn AB also presented the restructuring plan, was held on 19 August 2021. The purpose of the restructuring is to ensure equal treatment of creditors and the continuation of the activities of Swencn AB. On 21 February 2022, the Nacka District Court in Stockholm, Sweden, confirmed the restructuring plan approved by the creditors of Swencn AB according to which the claims of Swencn AB's creditors are to be settled to the extent of 25%, i.e. in an amount of €774 thousand, within six months after the court has confirmed the restructuring plan.

Long-term receivables of €8,598 thousand, including loan receivables of €8,315 thousand, from Swencn AB in the statement of financial position of the group's parent have been recognised as part of the equity of Swencn AB and are to be settled after the company's equity has been restored through future operating cash flows.

Suspension of the operation of the group's Ukrainian subsidiary Eurocon Ukraine TOV

In connection with Russia's military invasion of Ukraine on 24 February 2022, the operation of the group's Ukrainian subsidiary Eurocon Ukraine TOV has been suspended. The operation of Eurocon Ukraine TOV does not have a significant impact on the group's revenue, profit or loss, or assets (see note 24).

Impacts of the Russia-Ukraine conflict on the group's operations and the value of its assets

The group has investments in two real estate projects located in Ukraine, which are reported in the group's financial statements within long-term loans (note 8) and investment property (note 12). The assets were measured to fair value at 31 December 2021 based on a valuation report issued by an independent internationally recognised real estate appraiser. Due to the conflict between Russia and Ukraine, there is a need to write down the long-term loans and the investment property. The group will assess the recoverability of the loans and the value of the investment property in 2022 in the light of further developments in Ukraine.

Russia's military invasion of Ukraine and the consequent sanctions against Russia and Belarus have disrupted the supply of building materials, particularly metal, wood and oil-based products, which also affects the prices of relevant materials. As the situation is volatile and new supply chains are emerging, it is currently not possible to estimate the effects of the situation on the group's future financial performance. The group is working with customers to find mutually satisfactory solutions to the supply issues and price increases. The group is doing everything in its power to ensure timely completion of all construction contracts.

NOTE 38. Parent company's primary financial statements

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

Statement of financial position

€'000 As at 31 December	2021	2020
ASSETS		
Current assets		
Cash and cash equivalents	2,436	3,297
Trade and other receivables	25,924	22,311
Prepayments	2,508	819
Inventories	9,515	9,877
Total current assets	40,383	36,303
Non-current assets		
Investments in subsidiaries	7,345	7,345
Investment property	3,663	4,113
Trade and other receivables	24,072	21,125
Property, plant and equipment	4,648	5,350
Intangible assets	12,373	12,300
Total non-current assets	52,101	50,233
TOTAL ASSETS	92,484	86,536
LIABILITIES		
Current liabilities		
Borrowings	12,337	13,457
Trade payables	33,702	23,272
Taxes payable	795	1,228
Other payables	6,825	9,470
Deferred income	6,778	5,412
Provisions	323	374
Total current liabilities	60,760	53,213
Non-current liabilities		
Borrowings	3,422	3,961
Other payables	1,756	1,514
Provisions	410	366
Total non-current liabilities	5,588	5,841
TOTAL LIABILITIES	66,348	59,054
EQUITY		
Share capital	14,378	14,378
Own (treasury) shares	(660)	(660)
Share premium*	1,204	1,204
Statutory capital reserve	2,540	2,540
Retained earnings	8,674	10,020
TOTAL EQUITY	26,136	27,482
TOTAL LIABILITIES AND EQUITY	92,484	86,536

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

Statement of comprehensive income

€'000	2021	2020
Revenue	137,981	138,050
Cost of sales	(137,200)	(132,804)
Gross profit	781	5,246
Marketing and distribution expenses	(350)	(345)
Administrative expenses	(3,144)	(3,328)
Other operating income	131	135
Other operating expenses	(108)	(113)
Operating profit (loss)	(2,690)	1,595
Finance income	4,317	1,422
Finance costs	(1,078)	(833)
Net finance income	3,239	589
Profit before income tax	549	2,184
Income tax expense	3	0
Profit for the year	546	2,184
Total comprehensive income for the year	546	2,184

Statement of cash flows

€'000	2021	2020
Cash flows from operating activities		
Cash receipts from customers ⁵	163,962	167,013
Cash paid to suppliers ⁶	(147,646)	(149,007)
Cash paid to and for employees	(9,297)	(10,486)
VAT paid	(3,151)	(4,494)
Income tax	0	0
Net cash from operating activities	3,868	3,026
Cash flows from investing activities		
Paid on acquisition of non-current assets	(60)	(95)
Proceeds from sale of non-current assets	195	41
Capital contributions to subsidiaries	0	(150)
Paid on acquisition of subsidiaries	0	(2)
Cash received on acquisition of a subsidiary	0	62
Loans provided	(2,036)	(3,001)
Repayments of loans provided	0	1,644
Interest received	60	186
Dividends received	3,716	820
Net cash from (used in) investing activities	1,875	(495)
Cash flows from financing activities		
Proceeds from loans received	389	1,189
Repayments of loans received	(1,530)	(2,387)
Payments of lease liabilities	(918)	(825)
Interest paid	(766)	(609)
Dividends paid	(3,778)	0
Reduction of share capital	0	0
Net cash used in financing activities	(6,603)	(2,632)
Net cash flow	(860)	(101)
Cash and cash equivalents at beginning of year	3,296	3,397
Decrease in cash and cash equivalents	(860)	(101)
Cash and cash equivalents at end of year	2,436	3,296

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

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

Statement of changes in equity

€'000	Share capital	Own shares	Share premium	Statutory capital reserve	Retained earnings	Total
Balance at 31 December 2019	14,378	(660)	1,204	2,534	9,431	26,887
Profit for the year	0	0	0	0	2,184	2,184
Acquisition of an investment in a subsidiary	0	0	0	6	297	303
Dividend declared	0	0	0	0	(1,892)	(1,892)
Balance at 31 December 2020	14,378	(660)	1,204	2,540	10,020	27,482
Carrying amount of interests under control and significant influence	-	-	-	-	-	(7,345)
Value of interests under control and significant influence under the equity method	-	-	-	-	-	7,985
Adjusted unconsolidated equity at 31 December 2020	-	-	-	-	-	28,122
Balance at 31 December 2020	14,378	(660)	1,204	2,540	10,020	27,482
Profit for the year	0	0	0	0	546	546
Dividend distribution	0	0	0	0	(1,892)	(1,892)
Balance at 31 December 2021	14,378	(660)	1,204	2,540	8,674	26,136
Carrying amount of interests under control and significant influence	-	-	-	-	-	(7,345)
Value of interests under control and significant influence under the equity method	-	-	-	-	-	1,106
Adjusted unconsolidated equity at 31 December 2021	-	-	-	-	-	19,897

Statements and signatures of the board

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 2021 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 and other consolidated entities;
- all known events that occurred until the date the annual report was authorised for issue (20 April 2022) have been properly reported and disclosed in the consolidated financial statements;
- Nordecon AS and its subsidiaries are going concerns.

Gerd Müller	Chairman of the Board	<i>signed digitally</i>	20 April 2022
Priit Luman	Member of the Board	<i>signed digitally</i>	20 April 2022
Maret Tambek	Member of the Board	<i>signed digitally</i>	20 April 2022

Independent auditors' report

To the Shareholders of Nordecon AS

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Nordecon AS and its subsidiaries ("the group"), which comprise the consolidated statement of financial position as at 31 December 2021, the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the group as at 31 December 2021, 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.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (Estonia). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the group in accordance with the International Code of Ethics for Professional Accountants (Estonia) (including International Independence Standards), and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Valuation of the long-term loan provided to the Ukrainian associate	
Refer to notes 5, 8 and 37 of the consolidated financial statements.	
The key audit matter	How the matter was addressed in our audit
<p>The consolidated statement of financial position as at 31 December 2021 includes a loan provided to the group's Ukrainian associate V.I. Center TOV with the carrying amount of €8,481 thousand. The loan was provided for the acquisition and development of a property (plot of land) near Kiev.</p> <p>The group and the co-owners of V.I. Center TOV have created mortgages on the property owned by the investee in order to safeguard their investments and secure their loans.</p>	<p>In this area, we conducted, among others, the following audit procedures:</p> <ul style="list-style-type: none"> We assessed the valuation report of the property prepared by the external appraiser engaged by the group, considering the valuation methodology applied as well as the appraiser's competence, skills and objectivity. Assisted by our own valuation specialists, we assessed the valuation model of the property for mathematical

<p>The ability of the Ukrainian associate to repay the loan depends on the realisation of the development project and, therefore, the value of the loan also depends on the fair value of the property.</p> <p>Ukraine's political and economic situation continues to be uncertain and the events in the country may have a significant impact on the recoverability of the loan and, therefore, on the group's financial results as explained in notes 5 and 37.</p> <p>The recoverable amount of the loan is highly sensitive to changes in valuation assumptions, which is why changes in valuation assumptions may have a significant impact on the recoverable amount and thus on the group's financial results.</p> <p>Due to the above circumstances, we assessed the valuation of the long-term loan provided to the Ukrainian associate to be a key audit matter.</p>	<p>accuracy and suitability against the requirements of the relevant financial reporting standards.</p> <ul style="list-style-type: none"> • We challenged the reasonableness of the key valuation assumptions and estimates applied by the appraiser by reference to our understanding of the group's operations and of the economic situation in Ukraine. In the areas where the appraisers had relied on market-based inputs, such as the rental prices, vacancy and discount rates, we compared the inputs with the data available from external sources (such as publicly available market research by real estate appraisal agencies). We also made alternative calculations for the discount rate (WACC – weighted average cost of capital), based on available market data, and compared it to the rate used in the valuation model. • We assessed the appropriateness of the model used to assess the value of the loan provided and the reasonableness of the key inputs used by management. • We carried out an analysis of the sensitivity of the valuations to changes in the key model inputs, including the discount rate and the time of completion of the development project. • We assessed the adequacy of the related disclosures in the consolidated financial statements (including in respect of the sensitivity of the valuation results to changes in the key assumptions). • We assessed the appropriateness and sufficiency of the information disclosed in the consolidated financial statements about subsequent events.
<p>Valuation of the recoverable amount of goodwill</p>	
<p>Refer to Notes 2 and 14 to the consolidated financial statements.</p>	
<p>The key audit matter</p>	<p>How the matter was addressed in our audit</p>
<p>The group's consolidated statement of financial position as at 31 December 2021 includes goodwill in the amount of €14,176 thousand, discussed in detail in note 14. The goodwill has been allocated to five cash-generating units (CGUs). Relevant financial reporting standards require that goodwill is tested, at least annually, for impairment.</p> <p>The assessment of the recoverability of goodwill requires significant judgment in determining the future performance of the CGUs to which goodwill has been allocated. The recoverable amount of goodwill is determined by calculating the value in use of the relevant CGUs using the discounted cash flow method whose key inputs such as the discount rate and the expected future revenue and gross margin depend on management's significant judgment and estimates.</p> <p>The determination of whether the internal and external inputs used by the group to calculate the recoverable amount of goodwill were based on reasonable and appropriate estimates required our particular attention in the audit. Even small changes in the inputs may have a significant impact on the estimate of the recoverable amount of goodwill and, thus, also on the group's financial results.</p>	<p>In this area, we conducted, among others, the following audit procedures:</p> <ul style="list-style-type: none"> • We assessed whether management had appropriately allocated assets to CGUs based on our understanding of the group's operations. • Assisted by our own valuation specialists, we assessed the model used for calculating the recoverable amount of goodwill against the requirements of the relevant financial reporting standards, and made alternative calculations for the discount rates (WACC) applied in the calculations based on available market data, and compared it to the rates used in the valuation model. • Where the group had relied on market-based inputs, such as for the loan and rental agreements and discount rates applied, we compared the inputs with the data available from external sources (such as bank confirmations and publicly available market research). • We compared the data used in the model with the budgets and strategy approved by the group's council and assessed the historical accuracy of the group's

<p>Due to the above circumstances, we assessed the valuation of the recoverable amount of goodwill to be a key audit matter.</p>	<p>budgeting process by comparing recent years' actual revenue and gross margin to the budgeted amounts.</p> <ul style="list-style-type: none"> • We evaluated the assumptions and estimates applied in the model (such as the terminal period, working capital investments and capital expenditures) used for calculating the recoverable amount of goodwill, considering our understanding of the group's operations and the economic environment. • We assessed the adequacy of the related disclosures in the consolidated financial statements, including those in respect of the sensitivity of the valuation results to changes in the key assumptions.
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Other Information

Management is responsible for the other information. The other information comprises Nordecon group at a glance, key figures for 2021, letter from chairman of the council, group chief executive's letter, directors' report and the remuneration report but does not include the consolidated financial statements and our auditors' report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. In addition, our responsibility is to state whether the information presented in the directors' report has been prepared in accordance with the applicable legal and regulatory requirements. With respect to the remuneration report, our responsibility also includes considering whether the remuneration report has been prepared in accordance with the requirements of section 135³ of the Securities Market Act.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard and we state that the information presented in the directors' report is materially consistent with the consolidated financial statements and in accordance with the applicable legal and regulatory requirements. In our opinion, the remuneration report has been prepared in accordance with the requirements of section 135³ of the Securities Market Act.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

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

In preparing the consolidated financial statements, management is responsible for assessing the group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the group's financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (Estonia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions

of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with International Standards on Auditing (Estonia), we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, then we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

Report on Compliance with the Requirements for iXBRL tagging of Consolidated Financial Statements included within the European Single Electronic Format Regulatory Technical Standard (ESEF RTS)

We have undertaken a reasonable assurance engagement on the iXBRL tagging of the consolidated financial statements included in the digital files 48510000D8HSLK854I81-2021-12-31-en.zip prepared by Nordecon AS.

Responsibilities of Management for the Digital Files Prepared in Compliance with the ESEF RTS

Management is responsible for preparing digital files that comply with the ESEF RTS. This responsibility includes:

- the selection and application of appropriate iXBRL tags using judgement where necessary;
- ensuring consistency between digitised information and the consolidated financial statements presented in human-readable format; and
- the design, implementation and maintenance of internal control relevant to the application of the ESEF RTS.

Auditors' Responsibilities

Our responsibility is to express an opinion on whether the electronic tagging of the consolidated financial statements complies in all material respects with the ESEF RTS based on the evidence we have obtained.

We apply the provisions of the International Standard on Quality Control (Estonia) 1 and accordingly maintain a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

We are independent of the group in accordance with the International Code of Ethics for Professional Accountants (Estonia) (including International Independence Standards), and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We conducted our reasonable assurance engagement in accordance with International Standard on Assurance Engagements 3000 (Revised), Assurance Engagements Other than Audits or Reviews of Historical Financial Information (ISAE 3000) issued by the International Auditing and Assurance Standards Board.

A reasonable assurance engagement in accordance with ISAE 3000 (Revised) involves performing procedures to obtain evidence about compliance with the ESEF RTS. The nature, timing and extent of procedures selected depend on the practitioner's judgment, including the assessment of the risks of material departures from the requirements set out in the ESEF RTS, whether due to fraud or error. A reasonable assurance engagement includes:

- obtaining an understanding of the tagging and the ESEF RTS, including of internal control over the tagging process relevant to the engagement;
- reconciling the tagged data with the audited consolidated financial statements of the group dated 31 December 2021;
- evaluating the completeness of the tagging of the consolidated financial statements;
- evaluating the appropriateness of the group's use of iXBRL elements selected from the ESEF taxonomy and the creation of extension elements where no suitable element in the ESEF taxonomy has been identified;
- evaluating the use of anchoring in relation to the extension elements.

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

In our opinion, the consolidated financial statements included in the annual report of Nordecon AS identified as 48510000D8HSLK854I81-2021-12-31-en.zip for the year ended 31 December 2021 are tagged, in all material respects, in compliance with the ESEF RTS.

Other Requirements of the Auditors' Report in Accordance with Regulation (EU) No 537/2014 of the European Parliament and of the Council

We were appointed by those charged with governance on 20 May 2020 to audit the consolidated financial statements of

Nordecon AS for the financial years ended 31 December 2020 to 31 December 2022. Our total uninterrupted period of engagement is 16 years, covering the periods ended 31 December 2006 to 31 December 2021.

We confirm that:

- our audit opinion is consistent with the additional report presented to the Audit Committee of the group;
- we have not provided to the group the prohibited non-audit services (NASs) referred to in Article 5(1) of EU Regulation (EU) No 537/2014. We also remained independent of the audited entity in conducting the audit.

Tallinn, 20 April 2022

/signed digitally/

Andris Jegers
Certified Public Accountant,
Licence No 171

/signed digitally/

Ele Pajusar
Certified Public Accountant,
Licence No 652

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Profit allocation proposal

Distributable profit of Nordecon AS

	€'000
Retained earnings of prior periods	12,651
Loss for 2021	(6,310)
Total distributable profit (retained earnings) at 31 December 2021	6,341

The board proposes that no allocations be made.

Gerd Müller	Chairman of the Board	<i>signed digitally</i>	20 April 2022
Priit Luman	Member of the Board	<i>signed digitally</i>	20 April 2022
Maret Tambek	Member of the Board	<i>signed digitally</i>	20 April 2022

GRI content index

The group has prepared its annual report in accordance with the internationally recognised and widely used GRI (Global Reporting Initiative) Sustainability Reporting Standards. The topics required by GRI and the rest of the directors' report have been integrated into a single report.

The report discloses information about environmental, social, responsible management and market behaviour topics which are the most material in the light of the group's activities, impacts and stakeholder expectations. The GRI content index table presented below summarises the activities and summarised data of the parent company Nordecon AS and its subsidiaries Nordecon Batoon OÜ, Embach Ehitus OÜ, Tariston AS, Kaurits OÜ, NOBE Rakennus OY, Swencn AB and Eurocon Ukraine TOV unless otherwise stated. Although group entities have arranged the management of the topics differently, the annual report strives to reflect common features, similar policies and examples of best practice.

In addition to the approaches used to manage the social responsibility topics described in this report, the management approaches for some aspects are described in more detail in the group's previous annual reports and also apply to the activities of 2021.

GRI standard	Disclosure number	Disclosure	Location in report and/or explanation
Foundation (GRI 101: 2016)			
General disclosures (GRI 102: 2016)			
Organizational profile			
	102-1	Name of the organization	Page 1
	102-2	Activities, brands, products, and services	Pages 1, 4, 14-19
	102-3	Location of headquarters	Page 1
	102-4	Location of operations	Pages 10-11, 15
	102-5	Ownership and legal form	Pages 4, 51, 60, 66-67
	102-6	Markets served	Pages 10-11, 14-18
	102-7	Scale of the organization	Pages 5, 18-23, 29
	102-8	Information on employees and other workers	Page 29 (data is disclosed in as much detail as is required for outlining differences between different employee and other worker categories)
	102-9	Supply chain	Pages 25-26, 112 (group entities build assets (1) according to design documents and terms of reference provided, (2) using materials and products from Estonian and foreign producers and suppliers, and (3) with own or subcontractors' workforce to (4) ensure on-time and proper completion and delivery, including (5) fulfilment of obligations during the warranty period)
	102-10	Significant changes to the organization and its supply chain	There were no significant changes
	102-11	Precautionary principle or approach	Pages 13, 40-41
	102-12	External initiatives	Pages 37, 42
	102-13	Membership of associations	Pages 37-38
Strategy			
	102-14	Statement from senior decision-maker	Pages 6-7
Ethics and integrity			
	102-16	Values, principles, standards, and norms of behaviour	Pages 4, 40-46
	102-17	Mechanisms for advice and concerns about ethics	Pages 40-41

Governance			
	102-18	Governance structure	Pages 44-48 (ultimate responsibility for matters related to social and environmental impacts rests with the board of Nordecon AS)
Stakeholder engagement			
	102-40	List of stakeholder groups	Major stakeholder groups are owners / shareholders, employees, customers, subcontractors and suppliers, local residents, local municipalities, regulators, authorities, schools, business networks, NGOs and others.
	102-41	Collective bargaining agreements	The employees of group entities do not belong to trade unions; thus, there are no collective bargaining agreements.
	102-42	Identifying and selecting stakeholders	Relevant stakeholders of the group are the ones who are affected by the activities of the group, and whose activities affect the group the most.
	102-43	Approach to stakeholder engagement	The group holds a regular communication with the closest stakeholders – the satisfaction and opinion of shareholders, employees, customers, subcontractors, and suppliers is important. Also, the local residents around construction sites and local municipalities are involved if there is a need. The relations with regulators and authorities are driven by the need to comply with the legislation and other norms. Also, the group cooperates with schools, business networks, and NGOs. See also GRI 102-46.
	102-44	Key topics and concerns raised	Pages 9-11 (also GRI 102-47)
Reporting practice			
	102-45	Entities included in the consolidated financial statements	Pages 14-15
	102-46	Defining report content and topic Boundaries	<p>In 2016 the group analysed how the probable expectations of stakeholders are related to the view of the group about the relevance of different aspects of responsible business. The process was led by neutral consultants. The results of the materiality analysis are valid in 2021 as well.</p> <p>The outcome of the materiality mapping is the list of focus topics of responsible business conduct, divided into three priority categories (GRI 102-47). The allocation of the topics into three priority categories expresses their relevance for stakeholders, and relevance and impact for the group.</p> <p>As in general the focus topics are still relevant for all the companies of the group, the annual report explains the management principles and developments in 2021.</p>

	102-47	List of material topics	<p>1. The highest relevance</p> <ul style="list-style-type: none"> - Quality and customer experience - Economic performance - Safety of buildings - Compliance, transparency, ethics - Management capacity <p>2. High relevance</p> <ul style="list-style-type: none"> - Supplier engagement - Societal and community impact - Innovation - Workplace health and safety - Employee engagement - Workforce availability - Environmental impact of ready-made buildings <p>3. Relevant</p> <ul style="list-style-type: none"> - Impact on community - Environmental impact - Sectoral development - Employee diversity and fair treatment
	102-48	Restatements of information	No restatements have been made.
	102-49	Changes in reporting	The report covers the same topics as the report for the prior period
	102-50	Reporting period	Page 1
	102-51	Date of most recent report	The previous annual report was released on 29 April 2021
	102-52	Reporting cycle	The report is published once a year.
	102-53	Contact point for questions regarding the report	Andri Hõbemägi, andri.hobemagi@nordiccontractors.com
	102-54	Claims of reporting in accordance with the GRI Standards	The report has been prepared in accordance with the GRI Standards: Core option.
	102-55	GRI content index	Pages 126-130
	102-56	External assurance	Third parties have not expressed assurance on the report's compliance with the GRI requirements.
Sustainability focus topics			
Quality and customer experience			
Management approach (GRI 103: 2016)	103-1 until 103-3		Pages 23-24
	non-GRI	Customer satisfaction	Page 24
Management quality			
Management approach (GRI 103: 2016)	103-1 until 103-3		Pages 30-31
	non-GRI	Management trainings for senior managers	Page 31
Innovation			
Management approach (GRI 103: 2016)	103-1 until 103-3		Pages 26-27
	non-GRI	Usage of BIM in projects	Page 27
Environmental impact of ready-made buildings and sites			
Management approach (GRI 103: 2016)	103-1 until 103-3		Pages 32-33
	non-GRI	Energy labels and environmental standards	Page 34

Economic performance (GRI 201: 2016)			
Management approach (GRI 103: 2016)	103-1 until 103-3		Page 9
	201-1	Direct economic value generated and distributed	Pages 5, 23, 29
Anti-corruption (GRI 205: 2016)			
Management approach (GRI 103: 2016)	103-1 until 103-3		Pages 40-41
	205-3	Confirmed incidents of corruption and actions taken	Page 41
Energy (GRI 302: 2016)			
Management approach (GRI 103: 2016)	103-1 until 103-3		Pages 35-36
	302-1	Energy consumption within the organization	Page 34 (disclosures include data on the largest sources of energy and fuel consumption)
Biodiversity (GRI 304: 2016)			
Management approach (GRI 103: 2016)	103-1 until 103-3		Page 35
	304-1	Operational sites owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas	Page 34
Emissions (GRI 305: 2016)			
Management approach (GRI 103: 2016)	103-1 until 103-3		Page 35-36
	305-1	Direct (Scope 1) GHG emissions	Page 34 (disclosures include data on the largest sources of emissions)
	305-4	GHG emissions intensity	Page 34
Effluents and waste (GRI 306: 2016)			
Management approach (GRI 103: 2016)	103-1 until 103-3		Pages 34-35
	306-3	Significant spills	Page 35
Environmental compliance (GRI 307: 2016)			
Management approach (GRI 103: 2016)	103-1 until 103-3		Page 32-33
	307-1	Non-compliance with environmental laws and regulations	Page 34
Supplier environmental assessment (GRI 308: 2016)			
Management approach (GRI 103: 2016)	103-1 until 103-3		Pages 25-26
	308-2	Negative environmental impacts in the supply chain and actions taken	Page 26
Employment (GRI 401: 2016)			
Management approach (GRI 103: 2016)	103-1 until 103-3		Pages 27-31
	401-1	New employee hires and employee turnover	Page 28 (data is disclosed in as much detail as is collected by group companies in line with the concept of materiality)
	non-GRI	Employee satisfaction and feedback	Page 30
	non-GRI	Interns	Page 29
Occupational health and safety (GRI 403: 2018)			
Management approach (GRI 103: 2016)	103-1 until 103-3		Pages 31-32
	403-1 until 403-7		Pages 31-32
	403-9	Work related injuries	Page 32 (data is disclosed in as much detail as is collected by group companies in line with the concept of materiality)

Training and education (GRI 404: 2016)			
Management approach (GRI 103: 2016)	103-1 until 103-3		Pages 30-31
	404-1	Average hours of training per year per employee	Page 31 (data is disclosed in as much detail as is collected by group companies in line with the concept of materiality)
Diversity and equal opportunity (GRI 405: 2016)			
Management approach (GRI 103: 2016)	103-1 until 103-3		Pages 27-28,46
	405-1	Diversity of governance bodies and employees	Page 29 (data is disclosed in as much detail as is required for outlining differences between different employee categories)
Non-discrimination (GRI 406: 2016)			
Management approach (GRI 103: 2016)	103-1 until 103-3		Pages 27-28,46
	406-1	Incidents of discrimination and corrective actions taken	Page 29
Local Communities (GRI 413: 2016)			
Management approach (GRI 103: 2016)	103-1 until 103-3		Pages 24-25, 50-52
	413-1	Operations with local community engagement, impact assessments, and development programs	Page 25
	413-2	Operations with significant actual and potential negative impacts on local communities	Pages 24-25
	non-GRI	Complaints received from surrounding inhabitants regarding disturbing construction activities	Page 25
Supplier social assessment (GRI 414: 2016)			
Management approach (GRI 103: 2016)	103-1 until 103-3		Pages 25-26
	414-2	Negative social impacts in the supply chain and actions taken	Page 26
Public policy (GRI 415: 2016)			
Management approach (GRI 103: 2016)	103-1 until 103-3		Pages 40-41
	415-1	Political contributions	Page 41
Customer health and safety (GRI 416: 2016)			
Management approach (GRI 103: 2016)	103-1 until 103-3		Pages 23-24
	416-2	Incidents of non-compliance concerning the health and safety impacts of products and services	Page 24
Socioeconomic compliance (GRI 419: 2016)			
Management approach (GRI 103: 2016)	103-1 until 103-3		Pages 13, 40-41
	419-1	Non-compliance with laws and regulations in the social and economic area	Page 41