NORDECON

Group annual report 2022

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Business name	Nordecon AS
Registration number	10099962
Address	Toompuiestee 35, 10149 Tallinn, Estonia
Domicile	Republic of Estonia
Telephone	+372 615 4400
E-mail	nordecon@nordecon.com
Corporate website	www.nordecon.com
Core business lines	Construction of residential and non-residential buildings (EMTAK 4120) Construction of roads and motorways (EMTAK 4211) Road maintenance (EMTAK 4211) Construction of utility projects for fluids (EMTAK 4221) Construction of water projects (EMTAK 4291) Construction of other civil engineering projects (EMTAK 4299)
Financial year	1 January 2022 – 31 December 2022
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

The 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 Finland, Sweden and Ukraine.

Nordecon AS is a member of the Estonian Association of Construction Entrepreneurs and the Estonian Chamber of Commerce and Industry. Nordecon AS has developed and implemented a quality management system that complies with ISO 9001, an environmental management system that complies with ISO 14001 and an occupational safety management system that complies with ISO 45001. Compliance with the standards has been certified by DNV.

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 sustainable 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

As industry professionals, we apply appropriate construction techniques and technologies and observe generally accepted quality standards. Our people are results-oriented and go-ahead and successfully combine their extensive industry experience with the opportunities provided by innovation.

Reliability

We are reliable partners – we always keep our promises. Together we can overcome any construction challenge and achieve the best possible results. We act openly, transparently and consistent with the best practices of the construction industry.

Teamwork

We value balanced teamwork and create the best possible environment for sharing knowledge and experience. We notice and recognise each employee's contribution and initiative.

Sustainability

We uphold responsibility and sustainability in the construction sector and contribute to the achievement of the sustainable development goals supported by society both through our own activities and in cooperation with other market participants.

Key figures for 2022

€323 Revenue (2021: €289m)	**11.9%** Revenue change, year on year (2021: (2.5)%)	**€150m** Order book at the year-end (2021: €267m)
€163 Value of new contracts signed (2021: €315m)	**154** Projects delivered to customers (2021: 114)	**658** Employees (2021: 685)
17/0 Accidents/fatal injuries at work (incl. subcontractors) (2021: 14/0)	**0** Environmental pollution, discrimination and corruption incidents (2021: 0)	**€0.2m** Donations to community projects and charities (2021: €0.2m)

Awards and recognition

- **Attractive Employer of the Year 2022.** Among engineering students, Nordecon AS was in the TOP 10 in the employers' reputation survey organised by Instar.
- **Silver Badge of a family-friendly employer.** Nordecon AS was the first construction company in Estonia to be awarded the Silver Badge of a family-friendly employer at the end of 2022.
- **Recognition by the Estonian Centre for Defence Investment (ECDI).** Nordecon AS was acknowledged as Builder of the Year 2022 and Tariston AS was recognised as Innovation Partner of the Year 2022 by ECDI.
- **Construction company with the cleanest and most orderly construction site in the city of Tallinn in 2022.** The construction site of the Roseni office building built by Nordecon AS in the Rotermann Quarter (Ahtri 4) was recognised by Tallinn City Government as the cleanest and most orderly construction site in 2022.
- **Deed of the Year 2022.** The outdoor premises of passenger terminal D in Tallinn Old City Harbour, built by Nordecon AS, won the Deed of the Year 2022 competition organised by the Digital Construction Cluster. The project is notable in that it is the first infrastructure project where comprehensive Building Information Modelling (BIM) requirements have been used.
- **Best Construction Project of the Year 2022.** Saaremaa Upper Secondary School and Väo junction, both built by Nordecon AS, were among the nominees for the Construction Project of the Year 2022, a competition organised by the Estonian Association of Architectural and Consulting Engineering Companies, in the categories of buildings and civil engineering works, respectively.
- **Innovation Project of the Year 2022.** The Alma Tomingas office building, built by Nordecon AS and its subsidiary NOBE, was among the nominees for the Innovation Project of the Year 2022, a competition organised by the Digital Construction Cluster.
- **Builder of the Year 2022.** Marek Soomlais, project manager at Nordecon AS, who was in charge of the construction of an IKEA concept store, was among the three finalists in the Builder of the Year competition organised by the Estonian Association of Construction Entrepreneurs.
- **Young Civil Engineer of the Year 2022.** Richard Raudla, site manager for defence projects at Nordecon AS, was one of the two finalists in the Young Civil Engineer of the Year competition organised by the Estonian Association of Civil Engineers.
- **Positive Change.** The education programme Lae end (Charge Yourself), founded and supported by stakeholders including Nordecon AS, was awarded the first prize in the category of Positive Change at the TULIMUST marketing competition organised by the Estonian Marketing Association.

Letter from chairman of the council

The 1996 Nobel Prize in Economic Sciences was awarded for research addressing situations where different decision-makers have different information, but a decision needs to be made and based on available information. This situation is common in the economy, particularly in business where the information spaces of the customer and the general contractor overlap only partly and the general contractor does not have exactly the same information as the subcontractor. It also occurs within a company. In a similar situation, the information at the disposal of the owner differs from that available to the management board and the same is true about the management board and the division heads, the division heads and project managers, and so on.

In 2022, Estonia's Construction Price Index increased approximately 18% year on year, a rate last seen in 1996. Economic uncertainty, which inevitably accompanies rapid price increases, can easily emerge as a result of strong external shocks, even though all business managers think they currently know more about their company, business partners and the economic environment as a whole than they did a day, a year or a decade earlier. Nordecon made its first major investment in a comprehensive IT solution over 20 years ago, because we wanted to know the state and progress of our construction sites on a daily basis at every level of management and in every situation to be able to assess whether a bid, procurement or any other management decision we had made in a situation of information asymmetry had been good or less than good. I believe that the fact that the Nordecon group earned an operating profit in a year as volatile as 2022 is directly attributable to that capability – competent employees and organisations need to be informed and aware of the state of their affairs at all times.

Nordecon maintained its position as the leader of the Estonian general contracting market. However, if we put our highest-ever revenue of €322.9 million in the historical perspective, then in the previously mentioned year of 1996 the entire Estonian construction market was just about 63% larger than Nordecon's current business volume. It means that not too long ago the economic decisions currently made at our entities and on our construction sites would have affected the entire sector. Although we are better informed, we are just as exposed to external risks, be it prices, security of supply or the overall security situation. On the one hand, high-quality decision-making requires a good understanding of the situation through a visual, quick and as accurate as possible numerical overview of the situation on our sites and the risks taken. On the other hand, our processes need to be smartly open to both our customers and subcontractors. As the general contractor, we have the ultimate responsibility for the quality and timely completion of a building or infrastructure asset.

Toomas Luman

Chairman of the Council

Group chief executive's letter

The year 2022 saw extraordinary changes that will likely have irreversible impacts on society and the economy. The war in Ukraine and the resulting sanctions against Russia and Belarus changed both the energy and commodity markets, triggering high inflation along with spikes in companies' input prices. Inflation surged at an unusual pace throughout 2022 and central banks attempted to curb it by significantly raising the key interest rates. Record high inflation and soaring interest rates cooled the economy and disrupted investment plans.

It was a challenging year for the construction sector, which tried to maintain profitability and sustainability in a rapidly changing environment. Construction contracts usually have fixed prices and the risk is borne by the contractor. However, as input prices had also increased rapidly the year before, there was an unusually large number of cost-plus-fee contracts in the sector in 2022, which enabled contractors to share a part of their risks with customers. The year 2022 was thus characterised by parties seeking solutions in an extraordinary situation.

In the first half of 2022, the construction market was still growing, supported by strong demand for housing. The uptrend in interest rates, however, cooled the market significantly and by the year-end demand for construction services had dropped considerably. It is important to note that public spending, which had driven market growth alongside housing construction a year earlier, contracted sharply after the outbreak of the war in Ukraine, causing a market downturn. Drastic cutbacks in the investments made by the Transport Administration as the largest contracting authority for infrastructure construction had a particularly significant impact.

In terms of business volumes, Nordecon is the largest player in the Estonian construction market. Therefore, rapid market changes had a direct effect 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. Surging input prices and lower than usual availability of various materials affected our originally agreed construction schedules and undermined our profit 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. Although the economic environment was exceptionally challenging for construction service providers, we succeeded in ending the year with an operating profit. The reason for not earning a net profit was exceptional finance costs attributable to remeasuring our investments in Ukraine and foreign exchange losses, which do not affect the group's cash flow.

One of the cornerstones of Nordecon's strategy is to offer a broad range of services, which means being represented in most construction segments in order to deliver long-term and balanced growth. Our order book for 2023 is strong, enabling us to develop sustainably and move on to meet our long-term goals.

The construction sector is undergoing significant changes by implementing digital solutions designed to improve productivity and efficiency, as well as to reduce materials consumption and waste generation. In the context of green transition it is important that all stakeholders understand that every business has a responsibility to society and the environment. The Estonian construction industry is in the phase of becoming aware of its true impacts and environmental footprint and Nordecon, as the largest player in the sector, is firmly committed to leading the change. We are planning to formulate Nordecon's sustainability strategy and start implementing it together with our partners in 2023. The goal is to achieve sustainable business practices that respect the needs of all stakeholders.

I would like to thank all our employees for their contribution and commitment to the development of the company, 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 and goals for 2023–2027

Business lines and markets

- The group will grow, mostly organically, with a focus on efficient use of resources.
- In Estonia, we will operate in the building and infrastructure construction as well as housing development segments.
- In foreign markets (Finland, Sweden and Ukraine), we will compete as a general contractor and a provider of concrete works.

Activities for implementing the strategy

- We will provide our people with a modern and inspiring work environment and a motivation system that fosters collaboration and initiative.
- We will improve our profitability by planning and managing our design and construction operations more precisely.
- We will streamline our work and decision-making processes by implementing digital solutions.
- We will maintain the order books of our different operating segments in balance.
- We will set our sustainable development goals and adopt an action plan to achieve them.

Financial targets

- Revenue will grow by at least 5% per year.
- 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 deliver a strong dividend yield for Nordecon's shareholders.

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 2022

Estonian construction companies' total output (construction volume) in 2022 decreased by 1% compared with 2021. According to the preliminary data of Statistics Estonia, Estonian construction companies' total output in Estonia and abroad amounted to €4.2 billion, the figure comprising building construction of €2.8 billion and infrastructure construction of €1.4 billion. Building construction decreased by 6% and infrastructure construction (incl. roads, port facilities, pipelines, telecommunication and power lines) grew by 6% compared with 2021. In the buildings market, the new build volume remained stable compared with a year earlier but the volume of renovation and reconstruction works decreased in 2022. In the infrastructure market, on the other hand, the volume of renovation and reconstruction works increased but new build decreased. Foreign operations, which accounted for 5% of Estonian construction companies' total output, grew by 5% year on year, the figure reflecting a decrease in building construction and an increase in infrastructure construction.

According to the Estonian Building Registry, 6,521 new dwellings received a permit of use in 2022, 3% less than in 2021. The average area of new dwellings was 87 square metres. Most new dwellings (65%) were in apartment buildings. Similar to the previous year, the most popular type of residential building was a three- to five-floor apartment building. 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 two-room dwellings increased the most. 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 6,763, roughly a quarter smaller than in 2021. The number of new non-residential buildings that received a permit of use was 977 and their total usable area was 666,800 square metres. Growth was the strongest for industrial, warehouse and retail buildings. Both the area and volume of non-residential buildings that received a permit of use increased compared with 2021.

Outlooks of the group's geographical markets

Estonia

Processes and developments characterising the Estonian construction market:

- The construction market has seen rapid change and continues to be strongly influenced by public spending. Due to soaring input prices (according to Statistics Estonia, the construction price index increased by 17.8% in 2022), public capital expenditures as a whole will dwindle in 2023 because planned building and infrastructure projects can no longer be funded with originally planned resources. While the investments made by the Centre for Defence Investment have increased in connection with the current security situation, the investments made by the Transport Administration have plummeted. This is affecting the infrastructure segment as well as asphalt concrete production in a situation where relevant market supply is already significantly outstripping demand. Procurements for the Rail Baltica project are expected to increase, which should partly counterbalance the fall in the road construction and rehabilitation work procured by the Transport Administration. Against the backdrop of a general economic slowdown, the construction market is expected to decrease in 2023.
- While competition in the infrastructure segment was fierce throughout 2022, competition in the buildings segment intensified considerably in the fourth quarter due to the economic downturn. Although the rise in input prices has decelerated, the supplies of various commodities and product groups remain disrupted. This in combination with a price increase is putting pressure on builders' ability to meet their contractual delivery dates. On the whole, price inflation in 2022 exceeded the range factored into ordinary business risk: it pushed up the prices of construction materials and work and put the completion of started projects at risk. The price increase is partly attributable to the sanctions against Russia and Belarus, which have increased materials prices, but the effects of growing labour costs, an acute shortage of labour, high energy prices and rising interest rates are growing as well. It is clear that the price increase is not temporary. Soaring prices have cooled demand and some investments which have a business plan that cannot be realised will have to be deferred or significantly adjusted. It is difficult to forecast how the situation will affect the demand for construction services in the long term, but in the short term demand will decline.

- 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 (incl. 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. In addition, the group has investments in two real estate projects located in Ukraine. Due to the military conflict between Russia and Ukraine as well as uncertainty about the time when it will end, it is not possible to estimate how the situation in the Ukrainian economy and construction market will evolve in 2023.

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 primarily in the central part of the country.

Rapid inflation and spikes in interest rates weakened demand in the Swedish construction market in 2022. Construction volumes are expected to decrease in 2023, particularly in the segment of housing construction. In a challenging market environment, we will focus on finding new opportunities while critically assessing potential risks.

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 the demand for construction services and rapidly rising input prices. The demand for construction services continues to be strongly influenced by the volume of public investments, particularly in the infrastructure segment.

Bid prices are under strong competitive pressure in both the infrastructure and the building construction 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 our 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 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, which 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 implement technical solutions that help them work efficiently in changing conditions. Our investments in digital solutions which allow planning and managing construction processes more precisely have grown substantially. 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.

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 (incl. current and non-current) at 31 December 2022 totalled €1,604 thousand (31 December 2021: €1,335 thousand).

In addition to managing the risks directly related to construction operations, in recent years we have paid a lot of attention to mitigating 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

Credit losses for 2022 totalled €319 thousand. Credit losses for 2021 amounted to €2,144 thousand and were mainly attributable to the write-off of trade receivables at 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 0.88 (31 December 2021: 0.94). 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.

Due to the difficult political and economic situation in Ukraine, we believe that the group's Ukrainian investment properties cannot be realised in the short term. Accordingly, the receivables related to the loans provided to the Ukrainian associate of €7,899 thousand were classified as non-current 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 2022 totalled €17,193 thousand (31 December 2021: €16,289 thousand). A major share of short-term borrowings was made up of overdrafts of €11,071 thousand. According to the group's assessment, it is likely that the overdrafts will be extended after the reporting date.

The group's cash and cash equivalents as at the reporting date amounted to €7,238 thousand (31 December 2021: €9,031 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 amount of interest-bearing liabilities remained stable year on year. At 31 December 2022, the group's interest-bearing liabilities totalled €23,504 thousand (31 December 2021: €23,694 thousand). Interest expense for 2022 was €929 thousand (2021: €982 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 been 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).

Due to Russia's military invasion of Ukraine in February 2022 and Ukraine's previous political and economic instability, the exchange rate of the hryvnia has been volatile. The Ukrainian hryvnia was devalued in July and the exchange rate of the hryvnia weakened against the euro by approximately 21% in 2022. The group's Ukrainian subsidiaries, which have to translate their euro-denominated loans into the local currency, recognised a foreign exchange loss of €1,416 thousand (2021: an exchange gain of €711 thousand). Exchange gains and losses on financial instruments are recognised in profit or loss 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 8% in 2022. The translation of a loan provided to the Swedish subsidiary in euros into the local currency gave rise to a foreign exchange loss of €112 thousand (2021: an exchange gain of €16 thousand). Exchange gains and losses on financial instruments are recognised in profit or loss 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.

The group has not acquired derivatives to hedge currency risk.

Employee and work environment risks

Finding permanent skilled and qualified labour 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. Continuous employee development is essential and one of our acknowledged priorities. We also rely on our subcontractors' ability to find the staff 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 the measures required by law as well as our own management systems. Subcontractors are responsible for ensuring the safety of their operations and employees while our role is to build relationships and 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, we strive to conduct our operations so that the surrounding environment and nature are protected 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 are prevented by complying with legal and regulatory requirements. The group's construction entities have all implemented environmental management standard ISO 14001.

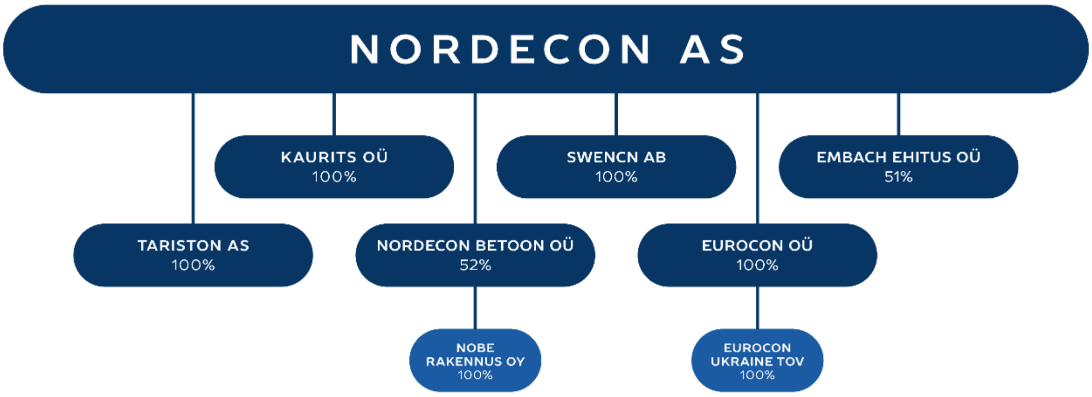
Corruption and ethical risks

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 2022, 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

In connection with Russia's military invasion of Ukraine on 24 February 2022, the operations of our Ukrainian subsidiary Eurocon Ukraine TOV have been, in material respects, suspended. The activity of Eurocon Ukraine TOV does not have a significant impact on the group's revenue, profit and assets. The group has interests in two real estate projects in Ukraine but the commencement of development activities has been postponed due to the war.

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 provided general contractor services under some smaller contracts.

Sweden

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 wanted to overcome the difficulties in paying bills, restructure creditors' claims and improve its liquidity. The 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 was 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 confirmed the restructuring plan approved by the creditors of Swencn AB according to which the claims of Swencn AB's creditors were to be settled to the extent of 25% within six months after the court had confirmed the restructuring plan. Swencn AB fulfilled its obligations under the restructuring plan in August of 2022.

Swencn AB did not have any ongoing construction projects at 31 December 2022 but the company is seeking new opportunities to continue its business in the Swedish market.

Performance by geographical market

The revenue contribution of foreign markets decreased substantially year on year, dropping to 4% of the group's total revenue in 2022. Due to Russia's military invasion of Ukraine, the business volumes of our Ukrainian subsidiary Eurocon Ukraine TOV have plummeted. The subsidiary halted its operations during the first months of the war but in the second quarter resumed work on a previously started building project in Kiev and is now also restoring an administrative building of the Kiev TV tower, which was damaged in the war. At the end of the year, we signed a contract for the construction of the concrete structures of a modular kindergarten, a bomb shelter and outdoor infrastructure in the city of Ovruch. Ukrainian revenues for the reporting period amounted to €1,202 thousand. Nordecon did not generate any revenue and had no ongoing construction contracts in the Swedish market in 2022. The group operates on a project basis in Latvia and Lithuania where it was building two wind farms in the reporting period. Finnish revenues mainly consist of subcontracting revenue from the provision of concrete works.

	2022	2021	2020	2019	2018
Estonia	96%	94%	82%	89%	93%
Finland	2%	3%	6%	4%	1%
Lithuania	1%	0%	0%	0%	0%
Latvia	1%	1%	0%	0%	0%
Ukraine	0%	2%	1%	2%	4%
Sweden	0%	0%	11%	5%	2%

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 2022 was €322,860 thousand, roughly 12% larger than in 2021 when the group generated revenue of €288,534 thousand. The revenue of the Buildings segment grew by 21% while the revenue of the Infrastructure segment decreased by 14%. Revenue decline in the Infrastructure segment is attributable to cutbacks in the investments of the largest customer, the Transport Administration, made due to the effects of the war in Ukraine that have caused a rampant surge in input prices. The growth delivered by the Buildings segment is mainly underpinned by large contracts secured in 2021.

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 2022, the Buildings segment and the Infrastructure segment generated revenue of €260,585 thousand and €62,048 thousand, respectively. The corresponding figures for 2021 were €216,070 thousand and €72,115 thousand (see note 24). The low volumes of infrastructure construction that continued to affect the entire construction market also influenced the group's revenue structure.

Revenue by operating segment*	2022	2021	2020	2019	2018
Buildings	81%	75%	72%	70%	72%
Infrastructure	19%	25%	28%	30%	28%

* 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 group entities mostly specialise in specific areas. The figures for Nordecon Betoon OÜ and the parent are allocated in both parts of the report based on the nature of the work.

Subsegment revenues

The revenue of the commercial buildings subsegment remained essentially stable while the revenues of other subsegments grew compared with 2021. The largest revenue contributors in the Buildings segment were the public buildings and the apartment buildings subsegments, which increased their revenue by 31% and 21%, respectively. The strongest revenue growth (57%) was delivered by the industrial and warehouse facilities subsegment, which generated 18% of the revenue of the Buildings segment.

The revenue of the public buildings subsegment grew significantly compared with a year earlier. The largest projects in progress during the period were construction works in the Medical Campus of the Tartu University Hospital in Tartu, the construction of the main building of the Estonian Internal Security Service in Tallinn, the design and construction of storage facilities and utility networks for the Centre for Defence Investment in Harju county and the design and renovation of the Ülenurme upper secondary school in Kambja rural municipality near Tartu.

The apartment buildings subsegment earns most of its revenue from the construction of apartment buildings for third parties. In 2022, the largest projects of this kind were the design and construction of the Tiskreoja and the Luccaranna housing estates on the western border of Tallinn. The volume of our own development operations (reported in the apartment buildings subsegment) has grown as well. We have development projects in both Tallinn and Tartu. During the period, work continued building the Mõisavahe Kodu housing estate in Tartu (https://moisavahe.ee) and developing plots and making preparations for phase II (the construction of an apartment building) in a new housing estate, Kivimäe Süda, in the Nõmme district in Tallinn (https://www.kivimaesuda.ee/en). We have also started the design of the Seiler Quarter housing estate in Pärnu (https://seileri.ee). The period's revenue from own development projects was €11,459 thousand (2021: €3,097 thousand). In carrying out our own development activities, we carefully monitor potential risks in the housing development market.

The largest projects of the commercial buildings subsegment were the commercial and residential complex Vektor in Tallinn, the LEED Gold compliant Alma Tomingas office building in Ülemiste City and an IKEA store in Rae rural municipality near Tallinn. The latter two have been completed and delivered to the customer on time.

The largest ongoing project in the industrial and warehouse facilities subsegment was the construction of a factory complex for the dairy company E-Piim in Paide but there were also smaller projects such as the construction of a production building at Kurna tee in Harju county and the design and construction of an extension to the production building of Viljandi Aken ja Uks AS.

Revenue of the Buildings segment	2022	2021	2020	2019	2018
Public buildings	30%	28%	37%	29%	25%
Apartment buildings	28%	29%	28%	27%	25%
Commercial buildings	24%	29%	23%	36%	35%
Industrial and warehouse facilities	18%	14%	12%	8%	15%

In the Infrastructure segment, the largest revenue contributor was still road construction and maintenance although its revenue decreased year on year by roughly 28%. During the period, a major share of its revenue resulted from the performance of contracts secured in 2021, the largest of which were the construction of 2+2 passing lanes on the Kärevere–Kardla section of the Tallinn–Tartu–Võru–Luhamaa road and the design and construction of the outdoor premises of passenger terminal D in Old City Harbour in Tallinn. In 2022, the group signed several smaller contracts of €2–3 million each and continued to deliver road maintenance services in Järva county.

The revenue contribution of other engineering, which is currently generating most of its revenue from the construction of wind farms in Estonia, Latvia and Lithuania, increased year on year.

A major share of the revenue of the specialist engineering subsegment resulted from the construction of Kalana marina and the expansion works at Roomassaare harbour.

Revenue of the Infrastructure segment	2022	2021	2020	2019	2018
Road construction and maintenance	75%	87%	74%	78%	89%
Other engineering	20%	6%	21%	18%	7%
Specialist engineering (incl. hydraulic engineering)	5%	4%	4%	1%	0%
Environmental engineering	0%	3%	1%	3%	4%

Selection of completed projects

Major projects completed by group entities in different subsegments in 2022*:

Brief description of the project	Group entity	Customer	Subsegment
Väo junction	Nordecon AS	Transport Administration	Road construction
Kärevere-Kardla section of main road no. 2	Nordecon AS	Transport Administration	Road construction
Outdoor premises of terminal D at Tallinn Old City Harbour	Nordecon AS	Tallinna Sadam AS	Road construction
Kalaranna quarter, phases I-II	Nordecon AS	Kalaranna Kvartal OÜ	Commercial buildings
IKEA store	Nordecon AS	Viljandi Real Estate OÜ	Commercial buildings
Alma Tomingas office building	Nordecon AS/Nordecon Betoon OÜ	Öpiku Majad OÜ (Mainor Ülemiste AS)	Commercial buildings
Allika tee commercial building	Nordecon Betoon OÜ	MT Varahalduse OÜ	Commercial buildings
Tiskreoja housing estate	Nordecon Betoon OÜ	Tiskreoja OÜ (Invego OÜ)	Apartment buildings
Tabasalu housing estate	Nordecon Betoon OÜ	Tabasalu Kodu OÜ (Invego OÜ)	Apartment buildings
Ventspils wind farm	Nordecon Betoon OÜ	SIA TCK (Utilitas AS)	Other engineering
Sports hall of Ülenurme upper secondary school	Embach Ehitus OÜ	Kambja Rural Municipality Government	Public buildings
Commercial and warehouse building at Vana-Kandi 3 (Tartu)	Embach Ehitus OÜ	Kaarsilla Kinnisvara OÜ	Industrial and warehouse facilities
Extension to the production building of Viljandi Aken ja Uks AS	Embach Ehitus OÜ	Viljandi Aken ja Uks AS	Industrial and warehouse facilities
Mõisavahe housing estate	Embach Ehitus OÜ	Own development	Apartment buildings
Dredging and construction works at Kalana marina	Tariston AS	SA Hiiumaa Sadamad	Specialist engineering
Reconstruction of the Tubala - Tammela section of national road no. 81 Kärdla-Käina, km 4.9-11.36	Tariston AS	Transport Administration	Road construction
Reconstruction of the Leetse tee and Kadaka tee roads	Tariston AS	Lääne-Harju Rural Municipality Government	Road construction
Reconstruction of the Läpi-Aru-Ojaküla road	Tariston AS	Tapa Rural Municipality Government and Centre for Defence Investment	Road construction
Expansion of berth 1 at Roomassaare harbour	Kaurits OÜ	Saarte Liinid AS	Specialist engineering
Construction of the Rail Baltica Urge ecoduct	Kaurits OÜ	GRK Eesti AS	Road construction

* 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.

Gallery of selected completed projects

IKEA store (Nordecon AS, photo: Riho Kirss)

Kalaranna quarter, phases I–II (Nordecon AS, photo: Tõnu Tunnel)

Sports hall of Ülenurme upper secondary school (Embach Ehitus OÜ, photo: Timo Arbeiter)

Tiskreoja housing estate (Nordecon Betoon OÜ, photo: Kristian Kruuser)

Mõisavahe housing estate (Embach Ehitus OÜ, photo: Timo Arbeiter)

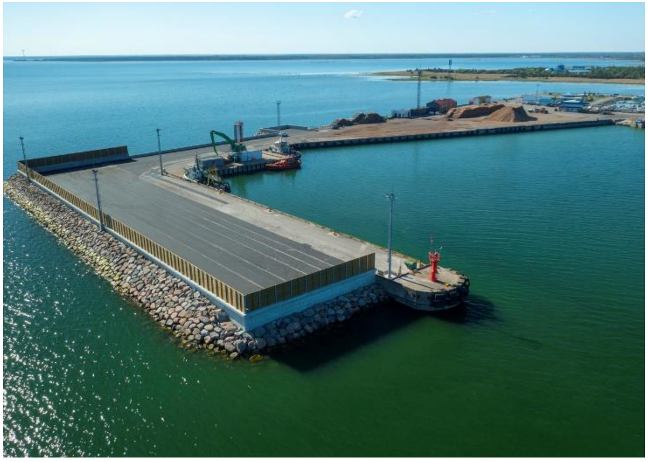
Alma Tomingas office building (Nordecon AS, Nordecon Betoon OÜ; photo: Kristian Kruuser)

Allika tee commercial building (Nordecon Betoon OÜ, photo: Kristian Kruuser)

Tabasalu housing estate (Nordecon Betoon OÜ, photo: Kristian Kruuser)

Väo junction (Nordecon AS, photo: Harry Auväärt)

Outdoor premises of terminal D (Nordecon AS, photo: Kaupo Kalda)



Expansion of berth 1 at Roomassaare harbour (Kaurits OÜ, photo: Olev Mihkelmaa)

Ventspils wind farm (Nordecon Betoon OÜ)

Financial review

Financial performance

Nordecon ended 2022 with a gross profit of €8,495 thousand (2021: €4,021 thousand) and a gross margin of 2.6% (2021: 1.4%). Margin improvement was largely due to the Buildings segment, which improved its gross margin significantly. The performance of the Infrastructure segment, which ended the year with a loss, was less than satisfactory. The Buildings segment delivered a gross margin of 4.1% (2021: 2.0%) whereas the gross margin of the Infrastructure segment was (2.4)% (2021: 1.0%). The key factors, which affected the performance of both segments were as follows:

- rampantly rising input prices (the construction price index increased by 17.8% year on year), which had a particularly strong impact on large and long-term construction contracts secured before 2022;
- persisting difficulties with the supply of materials, which make it difficult to complete construction projects on time but contract extensions involve additional costs.

The largest customer, the Transport Administration, cancelled several announced procurements and made significant cutbacks in its investments in 2022. This had a strong impact on the performance of the Infrastructure segment whose fixed costs are high. In response to the sharp decrease in road construction investments, we have reorganised our road construction operations and eliminated duplication of activities to achieve more efficient use of resources and profitability.

The group's administrative expenses for 2022 amounted to €7,287 thousand. Compared with a year earlier, administrative expenses grew by 20% (2021: €6,053 thousand) due to a general uptrend in the cost of goods and services and growth in staff costs (see note 29). The ratio of administrative expenses to revenue (12 months rolling) was 2.3% (2021: 2.1%).

The group earned an operating profit of €2,305 thousand in 2022 (2021: an operating loss of €4,336 thousand). EBITDA for the period amounted to €5,766 thousand and the EBITDA margin was 1.8% (2021: EBITDA was negative at €797 thousand and the EBITDA margin was (0.3)%).

The group's finance costs were significantly affected by the events in Ukraine. Russia's military invasion of Ukraine in February 2022 had a strong effect on the exchange rate of the Ukrainian hryvnia, which was already unstable. The hryvnia, which was devalued in July, weakened against the euro by approximately 21% and the Swedish krona weakened against the euro by approximately 8% in 2022. The translation of the loans provided to the group's subsidiaries in euros into the local currency gave rise to an exchange loss of €1,416 thousand on movements in the exchange rate of the Ukrainian hryvnia and an exchange loss of €112 thousand on movements in the exchange rate of Swedish krona (2021: an exchange gain of €711 thousand on movements in the exchange rate of the Ukrainian hryvnia and an exchange gain of €16 thousand on movements in the exchange rate of Swedish krona). The same movements in foreign exchange rates increased the translation reserve in equity by €1,368 thousand (2021: reduced by €475 thousand) and the net effect of the exchange differences on the group's net assets was negative at €160 thousand (2021: positive at €256 thousand). In addition, the group wrote down the loans provided to the Ukrainian associate V.I. Center TOV by €825 thousand. Due to the lack of more recent reliable data, the fair value of the loans was measured using the inputs of the valuation reports issued at the end of 2021 by an internationally recognised independent appraiser. The asset had to be written down due to the time factor, i.e. the deferral of the completion of the development projects. The foreign exchange loss and the impairment loss on the loans were non-cash transactions with a total effect of €2,353 thousand on the net result for 2022.

The group ended the year with a net loss of €1,441 thousand (2021: a net loss of €5,506 thousand). The net loss attributable to owners of the parent, Nordecon AS, was €3,650 thousand (2021: a net loss of €6,310 thousand).

Cash flows

Operating activities produced a net cash inflow of €3,466 thousand in 2022 (2021: an inflow of €7,365 thousand). Operating cash flow is increasingly affected by the need to make prepayments to materials suppliers, which have grown due to spikes in materials prices and continuing supply disruptions, in a situation where the contracts signed with both public and private sector customers do not require them to make advance payments. Cash inflow is also reduced 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 of the period resulted in a net cash inflow of €21 thousand (2021: an inflow of €312 thousand). Payments made to acquire property, plant and equipment and intangible assets amounted to €810 thousand (2021: €251 thousand) and proceeds from the sale of property, plant and equipment were €816 thousand (2021: €489 thousand).

Financing activities generated a net cash outflow of €5,259 thousand (2021: an outflow of €11,225 thousand). The largest items were cash flows related to loans and leases. Proceeds from loans received totalled €4,581 thousand, consisting of the use of the overdraft facility and development loans (2021: €1,922 thousand). Repayments of loans received amounted to €4,879 thousand, consisting of regular repayments of long-term investment and development loans (2021: €3,766 thousand). Lease payments totalled €3,481 thousand (2021: €3,318 thousand). Dividends paid in 2022 amounted to €488 thousand (2021: €5,000 thousand).

The group’s cash and cash equivalents at 31 December 2022 were €7,238 thousand (31 December 2021: €9,031 thousand). Management’s commentary on liquidity risks is presented in the chapter *Description of the main risks*.

Key financial figures and ratios

Figure/ratio	2022	2021	2020	2019	2018
Revenue (€’000)	322,860	288,534	296,082	234,071	223,496
Revenue change	11.9%	(2.5)%	26.5%	4.7%	(3.4)%
Net profit (loss) (€’000)	(1,441)	(5,506)	4,118	4,149	3,821
Net profit (loss) attributable to owners of the parent (€’000)	(3,650)	(6,310)	2,466	3,378	3,381
Weighted average number of shares	31,528,585	31,528,585	31,528,585	31,528,585	31,528,585
Earnings per share (€)	(0.12)	(0.20)	0.08	0.11	0.11
Administrative expenses to revenue	2.3%	2.1%	2.4%	2.9%	3.0%
EBITDA (€’000)*	5,766	(797)	7,003	7,311	6,021
EBITDA margin	1.8%	(0.3)%	2.4%	3.1%	2.7%
Gross margin	2.6%	1.4%	3.7%	5.0%	4.5%
Operating margin	0.7%	(1.5)%	1.2%	1.8%	1.8%
Operating margin excluding gain on non-current asset sales	0.6%	(1.6)%	1.1%	1.7%	1.3%
Net margin	(0.4)%	(1.9)%	1.4%	1.8%	1.7%
Return on invested capital	(0.5)%	(6.5)%	9.3%	10.0%	8.4%
Return on equity	(5.2)%	(16.8)%	11.8%	12.5%	11.2%
Equity ratio	19.8%	20.8%	27.6%	27.9%	32.4%
Return on assets	(1.1)%	(4.1)%	3.3%	3.7%	3.5%
Gearing	32.0%	28.3%	21.1%	33.8%	28.5%
Current ratio (note 5)	0.88	0.94	1.01	1.01	1.12

At 31 December	2022	2021	2020	2019	2018
Order book (€’000)	149,799	266,856	215,796	227,545	100,352

* 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

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

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

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

EBITDA margin = (EBITDA / revenue) * 100

Gross margin = (gross profit or loss / revenue) * 100

Operating margin = (operating profit or loss / revenue) * 100

Operating margin excluding gain on non-current 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

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

Return on equity = (net profit or loss for the period / the period’s average total equity) * 100

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

Return on assets = (net profit or loss for the period / the period’s average total assets) * 100

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

Current ratio = total current assets / total current liabilities

Order book

The group's order book (backlog of contracts signed but not yet performed) stood at €149,799 thousand at 31 December 2022, reflecting a roughly 44% decrease year on year. In 2022, we signed new contracts of €163,498 thousand (2021: €314,758 thousand). The surge in materials prices and a rise in interest rates due to the rise in EURIBOR have caused a significant increase in the costs of development projects as well as the postponement of new projects. As mentioned in the previous chapters, the volume of investments made by the Transport Administration has decreased significantly. This has affected the group's order book through a decline in the order book of the Infrastructure segment. On the other hand, the volume of procurements for the Rail Baltica project has increased and this has partly counterbalanced the decline in the investments of the Transport Administration. While public investments in the buildings construction segment have also decreased, investments in national defence infrastructure are going to increase according to currently available information and this is a subsegment where the group has traditionally been very successful.

At 31 December	2022	2021	2020	2019	2018
Order book (€'000)	149,799	266,856	215,796	227,545	100,352

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 88% while the share of the Infrastructure segment is 12% (31 December 2021: 90% and 10%, respectively). The order books of both the Buildings segment and the Infrastructure segment have decreased compared with 31 December 2021: by 45% and 32%, respectively.

A significant share of the order book of the Buildings segment is made up of contracts secured in 2021, the largest of which are the reconstruction and extension of the main building of the Estonian Internal Security Service, the design and construction of the commercial and residential complex Vektor and the construction of the Roseni Maja office building (all in Tallinn). Major contracts secured in 2022 include:

- the design and construction of the Uus-Järveküla housing estate in Rae rural municipality (28 terraced houses and 8 semi-detached houses with 165 dwelling units in total) with an approximate cost of €28,300 thousand;
- the design and construction of the Ülemiste City education complex with an estimated cost of €16,000 thousand (the cost will be specified in the design phase);
- the construction of apartment buildings in phase II of the Kastanikodu housing estate at Loo in Jõelähtme rural municipality near Tallinn with an approximate cost of €10,300 thousand;
- the design and construction of the expansion of warehouse and storage facilities of the Centre for Defence Investment in Harju county with an approximate cost of €17,700 thousand;
- the construction of the building and outdoor premises of the Karlsson kindergarten in Viljandi city with an approximate cost of €5,100 thousand.

In the Infrastructure segment, the order book of the road construction and maintenance subsegment is still the largest, accounting for nearly 85% of the segment's order book. A major share of the order book is made up of contracts signed in 2022, the largest of which are:

- the design and construction works for the elimination of residual pollution from Erra river and Kiviõli ditch with an approximate cost of €2,100 thousand;
- the construction of the Tagadi ecoduct on the route of Rail Baltica in Harju county with an approximate cost of €5,300 thousand.

We will 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, management forecasts that in 2023 the group's revenue will decrease compared with 2022. The uptrend in the prices of materials, energy carriers and labour costs will continue to drive up input prices, which will increase pressure on profit margins. In an environment of stiff competition, we have avoided taking unjustified risks whose realisation in the contract performance phase would most likely have an adverse impact on the group's results. Our focus remains on cost control as well as pre-construction and design activities, where we can deploy 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 are described in the chapter *Group structure* in the directors' report 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). A property of with a cost of €2,000 thousand was reclassified from inventories to investment property in 2022.

Investments in property, plant and equipment and intangible assets

Capital expenditures on property, plant and equipment totalled €4,903 thousand in 2022 of which €4,035 thousand was spent on right-of-use assets (2021: €3,291 thousand of which €2,861 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 expenditures on intangible assets (see note 14).

Changes in the carrying amounts of relevant asset classes

Asset class (€'000)	2022	2021
Investment property (note 12)	2,748	(40)
Property, plant and equipment (carrying amount) (note 13)	236	(620)
Intangible assets (carrying amount) (note 14)	83	85

Due to the economic slowdown and decline in investments made in the construction sector, the group is planning to reduce its capital expenditures on property, plant and equipment and intangible assets in 2023 compared with 2022. 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 ((EU) 2020/852). The Taxonomy 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. The criteria for the next four environmental objectives are expected to be published in 2023.

Consistent with the EU disclosure requirements, for 2021 only the proportions of taxonomy-eligible economic activities in the total turnover (revenue), capital expenditures and operational expenditures (operating expenses) were disclosed. A taxonomy-eligible economic activity is an economic activity that is described in the EU Taxonomy Regulation.

For 2022, it is necessary to disclose the proportions of taxonomy-aligned economic activities in the total turnover (revenue), capital expenditures and operational expenditures (operating expenses), i.e. the share of economic activities which are environmentally sustainable. To be taxonomy-aligned, an economic activity must first comply with the scientific screening criteria provided in the Taxonomy Regulation. In addition, the activity must comply with the 'do no significant harm' principle as well as the minimum safeguards requirement. According to the 'do no significant harm' principle, an economic activity must not harm the achievement of other environmental objectives and must meet the technical screening criteria set out in the regulation. To meet the minimum safeguards requirement, an activity must respect the basic human rights and comply with good governance principles.

Revenue

The group's taxonomy-eligible revenue (turnover) has been determined based on the breakdown of revenue by segments. Segment revenue comprises revenue from various projects/contracts. Revenue comprises consolidated revenue recognised in accordance with IFRS 15 (see note 27). Duplication of accounting is prevented by the structure of the analysis and internal project-based revenue accounting. For capital expenditures and operating expenses (operational expenditures), eligibility is based on the percentage of eligible activities of total activities, which ensures prevention of duplication of accounting.

Revenue recognised under contracts secured by the group as a general contractor in the Buildings segment (7.1. Construction of new buildings) is taxonomy-eligible. To determine taxonomy-aligned revenue, we analysed the compliance of the projects/buildings in the category of taxonomy-eligible revenue with the technical screening criteria, the 'do no significant harm' principle and the minimum safeguards requirement.

Based on the analysis, we determined that for 1.9% of taxonomy-eligible revenue, the technical screening criteria were met but the economic activity did not meet the 'do no significant harm' principle, which is why the group does not have taxonomy-aligned revenue (or relevant capital expenditure or operating expenses).

The proportion of taxonomy-eligible revenue has increased compared with 2021 (2021: 67%) in connection with the decrease in the share of revenue generated by the Infrastructure segment in the group's total revenue.

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 (see notes 13 and 14). 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

2022

	Total (€'000)	Taxonomy-eligible (€'000)	Proportion, %
Revenue	322,860	239,410	74%
Capital expenditure	5,026	2,203	44%
Operating expenses	3,473	1,239	36%

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

Sustainability and social responsibility

The role of large companies in showing the way in corporate social responsibility is growing consistent with the goals set at the European Union level and the processes introduced at the national level. The next decade will see significant developments and listed companies will be the first to implement the new requirements due to their regulatory obligations. In the construction sector, this provides a good opportunity to determine the impacts of business activities more precisely and to develop sustainability strategies.

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 our role as a public company compels us to exceed the requirements. This creates an opportunity to contribute more actively to the development of the construction sector and to show the way to other market players.

The group respects stakeholders who are affected by and affect its activities the most. The main stakeholder categories are owners, employees, customers, subcontractors, suppliers, legislators, supervisory agencies, local communities, local authorities, schools, professional associations and non-governmental organisations (NGOs).

We regularly and directly communicate with our owners, employees, customers, subcontractors and suppliers, making arrangements for cooperation and collecting feedback. Where necessary, we involve local communities and local authorities in our projects. The group is proactive and transparent in its communication in order to prevent problems. Our communication with regulators and supervisory agencies is law-abiding, cooperative, and aimed at finding solutions. We collaborate with schools, professional associations and NGOs to share knowledge and participate in the discussion of socially important topics.

We analysed how stakeholder expectations regarding sustainable business relate to our vision. To ensure reliable high-quality outcomes, the analysis was led by independent advisors. As a result, Nordecon's sustainability focus topics were divided into three groups (based on their importance for the stakeholders and the group):

1. The most important topics:

- Quality, customer experience and the safety of constructed buildings;
- Financial results;
- Fair business practices – legal and regulatory compliance, transparency and ethics;
- Management competencies and employee development.

2. Very important topics:

- Cooperation with subcontractors and suppliers;
- Direct impact of construction activities on local communities;
- Innovation, digital construction and technological solutions;
- Occupational health and safety;
- Employee satisfaction and engagement;
- Availability of workforce and new talent;
- Environmental impact of constructed buildings.

3. Important topics:

- Giving back to society and support activities;
- Direct environmental impact of activities;
- Diversity and fair treatment.

The directors' report provides an overview of the principles and policies for managing the above sustainability focus topics, the results for the reporting period, relevant activities and examples. We have not made any substantive changes to the selection and scope of the focus topics compared with the reports for previous periods. As the group's main business lines have not changed significantly, the previously mapped focus topics remain relevant.

Sustainability management

The role of the board is to initiate, lead, and ensure the addressing of sustainability topics within the company so that the group's mission, values, strategies, goals and policies would be aligned with the sustainable development principles.

Ensuring the group's compliance with its sustainability obligations and the effectiveness of relevant activities is the responsibility the board member responsible for the parent's financial management and support services. The management of more specific sustainability matters has been delegated to the heads of various departments involved in the provision of support services. In 2022, the board focused, among other things, on setting the group's strategic goals for the period 2023–2027. This included reviewing sustainability topics and planning related developments. Sustainability training will be provided to the executives of all group entities to raise the organisation's awareness of sustainable development matters. The group is also going to develop its sustainability strategy in the current strategy period.

Management of sustainability topics is supported by the group's quality, environmental, and health and safety management system, which is based on the requirements of international standards (ISO 9001*, ISO 14001*, ISO 45001**). The purpose of the management system is to ensure that work is completed properly, in accordance with the quality standards agreed with the customer and on time, in order to reduce the number of non-conformities and complaints as well as to comply with the due diligence obligations and the precautionary principles (preventing the group's activities from having a strong impact on the environment, people and the economy). Responsibility is also embedded in the group's main principles and core values. Each construction site is prepared an environmental plan and a safety plan, which outline its environmental impacts and occupational health and safety risks along with appropriate control measures. Before work begins, employees and business partners that need to work on a construction site are informed about the main aspects of the site and the measures to be applied. Subcontractors are supervised by the project team, and evaluated at the end of each project by reference to those aspects. The evaluation is taken into account when selecting subcontractors for future projects. The description and principles of the management system of Nordecon AS, approved by the board in 2022, can be found on the group's website.

We respect human rights and have included relevant principles in our internal rules and regulations. The group has not adopted a separate human rights policy. The internal rules and regulations are introduced to, and signed by, each employee during onboarding training. Legal compliance of the internal rules and regulations is the responsibility of group entities' human resource managers who make proposals for updates when necessary. Each employee has to observe the internal rules and regulations; compliance is monitored by the direct supervisors. Subcontractors operating on a construction site have to observe the rules of the construction site; compliance is monitored by the project manager.

In the framework of the management system, the group has an internal reporting system, which enables the board to continuously manage and monitor not only the key business performance indicators but also the key sustainability indicators (e.g. occupational safety, environmental protection). Sustainability topics have been integrated into the group's business management system and are regarded as part of usual management activities. The remuneration of managers is not linked to the achievement of sustainability objectives or the effectiveness of relevant activities.

The group organises monthly construction management meetings with the participation of management to ensure consistent addressing and review of all topics related to construction sites and site personnel. At the end of each construction project, a separate meeting is held to identify the main observations and areas that need improvement in subsequent projects (incl. topics with social and environmental impacts). Once a quarter, focused quality meetings are held to review any concerns that have arisen and complaints that have been received. Quality meetings are attended by the staff directly responsible for the area as well as board members.

The effectiveness and outcomes of the management system are reviewed by senior management during the annual review. The purpose is to verify the correctness of the information provided by the management system as well as the system's suitability, adequacy, effectiveness and alignment with the group's strategy. In the case of ambiguities, the employees involved are asked to clarify the data obtained. Any critical issues and complaints have to be reported promptly to management so that additional special meetings could be called if necessary.

The council usually meets once a quarter. At the meetings, the board presents the quarterly financial results and, if necessary, raises critical sustainability issues to determine further action.

Each construction site is subject to independent construction supervision in order to identify deficiencies and prevent problems. Once a year, an external audit is carried out to make sure that the group's management system complies with ISO standards. The audit includes visits to 1–2 construction sites.

* applied at all group entities
** applied in the activities of Nordecon AS, Nordecon Betoon OÜ and Embach Ehitus OÜ

In addition to direct communication, the employees of group entities can report deficiencies and submit complaints using an anonymous hotline set up on the group's intranet (accessible to the employees of Nordecon AS, Nordecon Betoon OÜ, Tariston AS and Embach Ehitus OÜ). The reports sent to the hotline are read by a member of the audit committee and submitters of the reports can remain anonymous. External stakeholders can submit complaints to the group's general e-mail address, where the issues raised are registered and processed based on the content of the request. The contact details are available on the group's website, on the notice board of each construction site and in all contracts of the group.

The effectiveness of the activities of the board is assessed by an independent audit committee but sustainability topics are not separately evaluated. In 2022, no significant deficiencies were identified in the management of sustainability topics and, therefore, no major changes were made to the organisation's management practices.

For the group annual report, the results of all group companies are aggregated. The annual report is audited by an independent auditor that verifies the accuracy of the presented numerical data (incl. sustainability data). The sustainability information provided in the annual report is not separately audited by an external auditor (e.g. the compliance of the report with the GRI standards). The board is directly involved in the group's sustainability reporting. The annual report (incl. sustainability information) is reviewed and approved by the council.

Quality and customer experience

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. The quality metrics of the group are properly managed projects and buildings and infrastructure assets which have been delivered on time and meet the required quality standards. 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. Construction quality, transparent operations and open communication with the customer throughout the construction process ensure a high level of customer satisfaction.

Work in our core business is underpinned by conscious, systematic and uncompromising quality management. We execute every project consistent with the requirements agreed with the customer, project documentation, applicable laws, regulations and standards, and our own management system. In quality management, we focus not only on preventing problems and detecting defects and errors but also on identifying excellence. Positive results are noticed and highlighted internally to promote best practices and share knowledge.

Most group entities request customer feedback on the completion of a project. At the parent, each completed project is assigned a quality coefficient, which influences the performance-related pay of the project team. The quality coefficient is based on compliance with safety rules, deadlines, technical requirements, effective defect resolution and customer feedback.

Examples from the year 2022

Despite an unusual and challenging year in the construction market, the group maintained a high level of customer satisfaction. Our customer satisfaction rate was 90% or higher at all subsidiaries. The few projects where the expected level was not achieved were separately analysed. The key areas where we can improve customer satisfaction are uniform interpretation of agreements with customers, management of subcontractors and takeover of work when teams or team members change.

Developing quality management

In 2022, the subsidiary Nordecon Betoon implemented Hausing, a new digital system for managing defects identified during the warranty period. The system will also be adopted by Embach Ehitus, where implementation has started, and the parent, where preparations are being made. We intend to enhance group-wide experience sharing by making the final project meetings more systematic and developing relevant digital solutions.

Ensuring the safety of buildings

High engineering and construction quality and the safety of constructed buildings are our number one priorities. We respond swiftly and rigorously to the slightest sign that safety might be at risk. Last year, the parent was faced with a situation where users of a constructed building had commissioned an expert assessment which indicated a potential defect in the structure of the building. Although a repeat assessment did not confirm the risk and the potential defect was identified in the work of an external design company, we reacted quickly and carried out additional work to ensure the safety of the residents. We also took the design error into account and applied additional measures on the construction of another building where the same design solution was used.

Performance indicators

	2022	2021
Customer satisfaction score*		
Nordecon AS	83%	92%
Tariston AS	91%	93%
Kaurits OÜ	95%	90%
Eurocon Ukraine TOV	96%	94%
Embach Ehitus OÜ	90%	87%
Non-conformities with regulations and the quality management system		
Number of completed construction projects' non-conformities with health and safety regulations and/or voluntarily observed standards	1	0
Number of non-conformities with the management system detected during internal audits that prevent achievement of goals	0	0

* Each entity applies its own methodology. The result is converted to a scale of 100%. The figure reflects feedback received during the year. The subsidiaries NOBE Rakennys Oy and Nordecon Betoon OÜ do not have separate accounting for customer satisfaction.

Cooperation with subcontractors and suppliers

Smooth and high-quality execution of construction projects depends on cooperation with subcontractors and the suppliers of materials and products. 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 and meet the customer's and our expectations. Nordecon does not work with partners who have been known to engage in dishonest business practices. In selecting partners, we consider their background, track record, technical capabilities, quality of work done, security of supply, adherence to deadlines and prices.

The group is responsible for ensuring the quality of the materials used on its construction sites. Although building materials and products are generally subject to high standards and requirements, we consistently check all materials and products to avoid subsequent risks. We use our experience and knowledge to offer the customer the most efficient solutions which are best suited for the construction project.

At the parent, each supplier and subcontractor is rated after a project or specific work has been completed. There is a designated database and subcontractor evaluation aspects include time, quality, cooperation, team, documentation, safety and the environment. Other group entities evaluate their suppliers and subcontractors annually but have taken steps to do it more frequently and accurately.

Examples from the year 2022

Various crises which have hit the construction market in the past three years have also affected work on the construction sites and increased the number of complex situations that need to be resolved. During the year, investments in construction activities decreased and customers started looking for more favourable solutions to mitigate their rapidly increasing economic risks. Due to the war in Ukraine, the prices of input materials and energy carriers continue rising, which is driving up construction costs. In an environment of high inflation, it is difficult to find subcontractors that would be willing to participate in more favourably priced projects. Although the situation is challenging, we wish to maintain good relations and to be an understanding partner for subcontractors.

Instructing subcontractors

Last year, we changed the way we instruct subcontractors before the work begins. Previously, only subcontractors' representatives received on-site instruction, but from 2022 their entire teams are involved. At the meeting, we brief subcontractors on our internal rules and regulations, safety requirements, the environmental plan of the construction site and the construction plan. To keep track of people who have been instructed and monitor the situation, a sticker is placed on the helmet of each worker that has received instruction. Subcontractors' willingness to work responsibly has been consistently improving and the trend continued last year.

Registering workers on construction sites

The parent company has been working with the Tax and Customs Board in connection with the new requirements that have to be observed on construction sites from 1 October 2023. Companies have to collect and provide data about workers on their construction sites to increase transparency and help detect potential tax fraud. The group regards the new system as an opportunity to integrate the data collection process into its internal digital systems and thereby to improve the management of construction projects and monitoring of progress.

During the year, we carried out a pilot project in which all workers on a construction site registered their working hours with personalised smart cards. The testing of the system enabled us to provide the Tax and Customs Board with valuable input information for the creation of a country-wide IT solution and to ensure legal compliance.

Performance indicators

	2022	2021
Share of subcontractors with whom an agreement on meeting health and safety requirements has been signed	100%	98%
Number of subcontractors with significant detected breaches, risks or negative impacts relating to health and safety aspects, which have resulted in termination of cooperation or an official decision to avoid future collaboration	0	0
Share of subcontractors with whom an agreement on meeting environmental requirements has been signed	97%	96%
Number of subcontractors with significant detected breaches, risks or negative impacts relating to environmental aspects, which have resulted in termination of cooperation or an official decision to avoid future collaboration	0	0

Contracts set out the parties' responsibilities for ensuring work, fire, electrical and environmental safety.

Innovation, digital construction and technological solutions

Digital construction, which means a variety of solutions for the digitalisation of construction processes, has become a natural part of our everyday operations in recent years. The purpose is to make work more efficient, transparent and systematic, in order to better analyse operations and make smarter decisions. Our ambition is to be a digital construction leader and advocate in Estonia and to contribute to making the use of practical digital solutions a standard for all construction companies. Digital construction helps modernise the construction industry and makes its image more attractive to young people choosing a profession.

Nordecon is an active member of the board of the Digital Construction Cluster which unites various stakeholder groups that support 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. Model-based project management increases transparency and improves communication – all parties (incl. architects, designers, budgeters and builders) have the same information, which helps them understand each other's needs. 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.

One of the advantages of BIM is a preliminary virtual walk-through of the construction process, which enables us to identify areas that may become danger zones and to plan how to mark them on the construction site. Model-driven design also helps develop smarter energy consumption, space planning, lighting, indoor climate and other solutions.

All group entities use project management software Bauhub, 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 have implemented IT solutions that enable us to work more quickly and smartly in most areas. 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 subsidiaries NOBE and Embach Ehitus use Hausing, an electronic management tool that provides both the contractor and the customer with a good overview of warranty work.

Examples from the year 2022

Data-driven management

The group continued developing various digital and automated solutions and introducing associated processes to help improve transparency and sharing of knowledge among people.

- The parent developed a dashboard for the key indicators of construction activities, which provides a real time overview of the status of the budgets and the progress and deadlines of construction projects.
- The parent completed the development of a dashboard for financial data. Preparations were also made for the adoption of the system at the subsidiaries.
- The parent started using Microsoft Project Online in the scheduling and management of all new projects. The cloud-based software enables us to analyse data on a uniform basis and use the resulting knowledge in future projects and bids.

BIM pilot project in infrastructure construction

We completed the construction of the outdoor premises of passenger terminal D in Tallinn Old City Harbour. In the course of the project we delivered to the customer the most thorough and highest-standard BIM as-built model prepared in the Estonian infrastructure construction market to date. Observation data for the project was collected with drones. The Digital Construction Cluster named the project the Deed of the Year 2022.

Performance indicators

	2022	2021	2020	2019	2018
Number of construction projects where BIM was used	86	51	51	41	47

Employees and work environment

Employees

We provide our employees with a modern and safe work environment. Competent and highly motivated staff play a key role in our success. Our scale of operations offers excellent opportunities for personal growth, productive work and professional development.

Group entities consciously develop their employer reputation and invest in promoting the construction industry. We pay particular attention to young people and annually organise events designed to attract and develop new talent. We participate in career fairs and workshops and organise open days and site visits.

We respect human rights and relevant principles are set out in our internal rules and regulations. We treat everyone equally and employ people of different ages, genders and ethnicities as well as people with special needs. All employees are offered the same benefits and the same opportunities for personal development. Due to the nature of the construction business, the share of women in the group’s workforce is smaller. We try to make the engineering education and careers more appealing to women by sharing the success stories of our female colleagues.

Examples from the year 2022

In HR management, one of our greatest challenges of the year was to find and retain competent civil engineers and other specialists. There is stiff competition for employees among construction companies and, depending on the job, the recruitment of a suitable person may take several months.

The year was also strongly affected by high inflation, which increased pressure for a wage increase, employees' expectations and staff costs. Salaries are usually reviewed annually but last year we had to do it more frequently.

The number of employees decreased. This was mainly attributable to the contraction of the group's order book, job losses due to the rearrangement of infrastructure construction operations and voluntary leaving. At the end of the year, Nordecon AS also closed its design and surveying department. In the future, the services will be outsourced.

Performance indicators

	2022	2021	2020	2019	2018
Number of employees					
Total average number of employees at group entities	658	685	708	687	687
Of which: engineers and technical personnel (ETP)	432	434	450	414	419
workers	226	251	258	273	268
Change in number of employees , year on year	(4)%	(3)%	3%	0%	(6.5)%
Gender diversity					
Proportion of women in the group's workforce	16%	16%	15%	16%	17%
Proportion of men in the group's workforce	84%	84%	85%	84%	83%
Proportion of women among group entities' board members	8%	8%	8%	7%	13%
Proportion of men among group entities' board members	92%	92%	92%	93%	87%
Age diversity					
Proportion of employees under 30 years old	21%	21%	21%	21%	23%
Proportion of employees 30-49 years old	57%	57%	56%	54%	51%
Proportion of employees 50 years old and over	22%	22%	23%	25%	26%
Productivity					
Nominal labour productivity (€'000)*	490.4	420.8	422.9	340.6	325.4
Change year on year, %	16.5%	(0.5)%	24.2%	4.7%	3.3%
Nominal labour cost efficiency (€)**	11.8	11.5	10.9	9.2	9.7
Change year on year, %	2.9%	5.5%	18.0%	(5.0)%	(3.8)%
Staff costs					
Staff costs, including all taxes (€'000)	27,248	25,054	27,130	25,323	22,964
Service fees of members of the council (€'000)	150	150	165	187	187
Social security charges paid on service fees of members of the council (€'000)	50	50	54	62	62
Service fees of members of the board (€'000)	417	369	432	480	656
Social security charges paid on service fees of members of the board (€'000)	138	122	143	158	217
Other indicators					
Number of interns	28	45	21	40	26
Number of incidents of discrimination against employees or human rights violations	0	0	0	0	0
Average length of employment with a group entity	8.0	7.5	7.0	6.9	8.5

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

** Nominal labour cost efficiency = revenue / staff costs per year

Average number of employees in 2022 by country of operation

	Estonia	Finland	Ukraine	Sweden
Total	**571**	**35**	**51**	**1**
Employees under 30 years old	122	16	1	0
Employees 30-49 years old	318	15	41	1
Employees 50 years old and over	131	4	9	0
Employees with open-ended employment contracts	546	35	51	1
Employees with fixed-term employment contracts	25	0	0	0
Full-time employees	535	35	26	1
Part-time employees	36	0	25	0

Average number of employees in 2022 by employee category

	Engineers and technical personnel		Workers	
	Women	Men	Women	Men
Total	**96**	**336**	**4**	**222**
Employees under 30 years old	26	78	0	33
Employees 30-49 years old	51	212	1	113
Employees 50 years old and over	19	46	3	76
Employees with open-ended employment contracts	87	322	3	221
Employees with fixed-term contracts	9	14	1	1
Full-time employees	76	312	1	208
Part-time employees	20	24	3	14
New hires/leavers (employee turnover %)	**16/15 (15.6%)**	**42/80 (24%)**	**1/2 (50%)**	**45/69 (31%)**
Employees under 30 years old	8/4	21/26	0/0	27/23
Employees 30-49 years old	8/9	17/43	1/0	10/31
Employees 50 years old and over	0/2	4/11	0/0	8/15

Number of people working under service or authorisation agreements and labour lease arrangements who are not included in the number of employees: 21

Employee satisfaction and inclusion

Maintaining and steadily increasing 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. From 2022, a group-wide satisfaction survey is conducted every two years.

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.

The employees of the subsidiary NOBE Rakennus OY, who account for 5% of the group's employees, are covered by collective agreements.

Examples from the year 2022

Silver Badge of a family-friendly employer

Nordecon AS was the first construction company in Estonia to be awarded the Silver Badge of a family-friendly employer. We have participated in the programme led by the Ministry of Social Affairs since 2020 to address employee welfare issues during the entire employee life cycle. Major programme activities include recognising employees, supporting their professional development, promoting a healthy work-life balance, ensuring good organisational culture and encouraging communication. It is an ongoing process, which requires keeping up with changes in the labour market and steadily improving employee wellbeing.

Employee satisfaction

In 2022, we did not engage Kantar Emor to conduct a traditional group-wide employee satisfaction survey. Embach Ehitus carried out a short version of the survey. The parent asked for staff feedback on whether they perceived the company as a family-friendly and employee-friendly employer, on cooperation between units and on the level of work-related stress. A group-wide satisfaction survey is scheduled for 2023.

Employee events and activities

Alongside work, we consider it important to come together as a team to celebrate our successes and recharge. When pandemic-related restrictions were lifted, the staff could again attend in-person events. To prevent the risks related to COVID-19, the group's traditional Winter Workshop for all staff was held in the spring. Several group entities also arranged summer and Christmas events as well as a range of smaller and larger team activities. The parent organised its traditional Project Manager Day.

Supporting employee health and wellbeing

In November, we again organised a group-wide Health Month. This year the primary focus was on mental health. Throughout the Health Month there were lectures and workshops on a number of health matters as well as physical activities for employees. The purpose of the Health Month is to inform and raise employees' awareness of matters related to physical and mental health and well-being.

Performance indicators

	2022	2021	2020	2019	2018
Employee engagement index (TRI*M index)	Data was not collected	54	54	66	61
Number of employees invited to participate in the survey		372	370	367	347
Share of employees that responded to the survey		87%	88%	75%	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. Employee development needs and wishes are identified during annual performance interviews by which we determine training needs, make certification plans, and obtain valuable feedback on our organisation and management.

Examples from the year 2022

We continued to focus on employee development and prepared our people's training plans based on the wishes and needs identified during performance interviews. Supporting the obtaining of higher professional qualifications and in-service training also helped maintain and improve professional skills and competences. The parent's new executives participated in a mentoring programme to enhance their management competencies.

Performance indicators

	2022	2021
Total average number of training hours for managers and ETP staff	8.5	9.5
Of which: women	9.0	Data was not collected
men	8.0	
Total average number of training hours for workers	7.5	8.7
Of which: women	1.0	Data was not collected
men	7.0	
Share of ETP staff with a valid professional certificate	52%	43%
Share of ETP staff with whom performance reviews were conducted	41%	61%

Across the group, 64% of executives on the boards of the parent and the subsidiaries participated in various management training courses during the year.

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 and creating 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. Our goals include supporting employees' physical and mental health. For example, we organise group-wide health months and support sports activities, and the parent offers a health insurance solution.

The field of occupational health and safety is clearly regulated by laws and regulations. To ensure compliance, we have appointed people responsible for the area at all entities. We have established procedures for emergency situations, conduct risk analyses, carry out health checks, and train and inform employees. We prepare relevant action plans for our construction sites, supply the staff with proper work and personal protection equipment, and analyse risk situations and accidents to prevent their recurrence. Fire drills are carried out at least once a year on each construction site. The tone at the top and leading by example play an important role in promoting a good safety culture and encourage employees to pay more attention to their health and safety.

The operations of the group's parent and the subsidiaries Nordecon Betoon OÜ and Embach Ehitus OÜ comply with the requirements of international occupational health and safety management standard ISO 45001:2018.

Examples from the year 2022

Strong safety culture

Construction is a sector with a high risk index and an area of activity most regularly inspected by the Labour Inspectorate. The number of accidents at work in the sector as a whole has decreased in recent years and it is no longer true that the construction sector has the highest number of accidents at work.

The Labour Inspectorate's targeted inspections during the year detected 527 violations on all construction sites in Estonia. Of these, 27 were related to the construction sites of the group's parent. Considering the group's market share, business volumes and above-average complexity of construction projects, the low number of violations confirms that the group has a strong safety culture. In 2022, the Labour Inspectorate did not issue any orders to stop work on the construction sites of the parent. Throughout the year, work was briefly stopped in smaller work segments due to the negligence of individual employees in the use of work equipment, and the situations were resolved immediately.

From 2022, the work environment council of Nordecon AS includes two management board members (previously one).

Last year, the group's subsidiary Embach Ehitus hired a quality and safety manager who is going to lead the occupational health and safety activities. Embach Ehitus now uses the Bauhub digital environment for weekly safety inspections, which also incorporates the observations made by the quality and safety manager during visits to construction sites.

Performance indicators

	2022	2021	2020	2019	2018
Accidents at work involving the group's workforce*					
Number/rate of work-related safety incidents	6/5.9	8	3	5	2
Number/rate of minor accidents at work	5/4.9	5	6	10	8
Number/rate of serious accidents at work	1/1.0	0	2	2	1
Number of fatal accidents at work	0/0	0	0	0	0
Number of hours worked (in millions)	1.02				
Accidents at work involving subcontractors' workforce					
Number of work-related safety incidents	11	12	35	24	18
Number of minor accidents at work	5	7	8	6	6
Number of serious accidents at work	6	2	3	1	2
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	3,345	4,301	4,743	3,686	2,467
Average number of sick leave days per employee	5.1	6.3	6.9	5.4	3.6
Proportion of sick leave days of all planned workdays**	2.0%	2.5%	2.7%	2.1%	1.4%

* Incident and accident rates have been calculated per million working hours. In earlier periods, data was not collected.
** The proportion of sick leave days has been calculated based on working time per calendar year in Estonia.

Accidents at work involving the group's employees were related to slipping on, and falling from, ladders. Accidents involving subcontractors resulted from falls, incorrect use of work and protective equipment, and negligence.

Direct impact of construction activities on local communities

One part of a responsible construction process is to minimise the disturbance to the area and the community. 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. Good relations with the community facilitate the group's future operations in the same area.

The group informs local communities about planned works in advance, using the media, direct communication and visits to the area. We communicate regularly with local authorities and, if necessary, organise meetings with the local community to anticipate problems and answer people's questions. Each construction site has proper notice boards with contact details. All communications and complaints received are registered and referred to the responsible persons for resolution. The system does not allow ignoring any complaints that have been received.

To prevent problems, each construction site has an environmental management plan, which includes measures for reducing disturbances. Where possible, we schedule noisier work for times when it disturbs the community as little as possible. To shorten the period of disturbance, we have asked the community and local authorities to permit longer workdays on some sites. 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 are proactive in our outreach activities and prepared for public interest.

Examples from the year 2022

Best construction site in the capital

Tallinn City Government recognised the construction site of the Roseni office building in Rotermann City (Ahtri 4) in Tallinn, built by the group's parent, as the cleanest and most orderly construction site in 2022. The best site was selected from 69 construction sites which were repeatedly inspected. Although the location made it difficult to maintain the site in good order, the installation of safety signs, communication with the local community, storage of building materials, use of heavy equipment, and measures to control dust, dirt and noise were exemplary.

Construction projects under increased public scrutiny

Last year, we had several large construction projects near major traffic routes in the centre of Tallinn, which are always subject to public scrutiny and more sensitive. We paid particular attention to reducing direct negative impacts at the following construction sites:

- the Vektor commercial and residential complex (Pärnu mnt 137);
- the Alma Tomingas office building (Sepise 7);
- the main building of the Estonian Internal Security Service (Toompuiestee 3/Endla tn 2).

The local communities did not raise any major issues. The group has achieved a high standard in observing the environmental management plans, and serious problems with the site teams are rare. We carry out construction site inspections which are attended by the heads of divisions and hold regular meetings of the work environment council which are attended by management board members.

Performance indicators

	2022	2021
Justified official complaints received from people living near our construction sites	7	8

The complaints were related to traffic disruptions and dust and dirt generated by construction works. All issues were resolved through communication with the community and there were no major problems.

Giving back to society and attracting new talent

Nordecon has the strongest social impact through its well-planned and safe construction processes and high-quality end-results: buildings and infrastructure assets. At the same time, we also contribute to areas of wider societal importance:

- we support and promote construction and engineering education and activities by working closely with universities and professional qualification authorities, participating in career fairs, offering internship opportunities and supporting activities aimed at young people;
- we participate actively in the discussion of matters related to the construction industry and make our proposals through various professional associations;
- we support sports, education, culture and the activities of local communities.

Nordecon has signed an agreement with Tallinn University of Technology to cooperate with the university in matters related to the education of civil engineers in Estonia. Nordecon also finances the university to create better opportunities for civil engineering students. Students are offered internships at all group entities and the group collaborates with the university in construction-related research.

Examples from the year 2022

Activities aimed at new talent and promoting the engineering profession

We offered students paid internship opportunities at different group entities and units, both on construction sites and the teams involved in pre-construction activities. There were several special events for construction and engineering students and interns where we presented the group's activities. A lot of students who completed their internships decided to join the Nordecon team, and the group supports them by offering flexible working hours and part-time work. Nordecon was again among the top ten most attractive employers for engineering students according to the results of the Most Attractive Employers survey conducted by Instar.

The group organised several external activities to attract new talent and promote the construction industry:

- In partnership with companies and education enthusiasts, we helped initiate and implement the education programme Lae end (Charge Yourself). The purpose of the programme is to recognise and provide training to middle school physics teachers and thus promote the profession and increase students' interest in the subject. Nordecon and six other companies provided financial support, helped acquire state-of-the-art teaching materials and equipment, and arranged a series of training sessions for teachers. The programme won the TULIMUST competition organised by the Estonian Marketing Association in the Positive Change category.
- To promote the engineering profession, the group's subsidiary Embach Ehitus OÜ became a member of the Estonian Association of Civil Engineers.
- Our employees gave lectures to civil engineering students at the Tallinn University of Technology and the TTK University of Applied Sciences and organised a visit to a construction site.
- Nordecon awarded an engineering study scholarship and a young lecturer/researcher scholarship under the scholarship programme of the Development Fund of the Tallinn University of Technology.
- We participated in career fairs for students.

Partner to Green Tiger

We were actively involved in the activities of Green Tiger, a cross-sector collaboration platform, through the working group drafting Estonia's construction industry road map. It is a vision document for the construction sector until 2040, which includes proposals to the public and the private sector, designed to ensure the competitiveness of the construction industry, a high-quality living environment and the delivery of the green transition. The road map, which is being developed by 15 companies, universities and professional associations will be completed in 2023.

Digital Construction Cluster

We participated in the creation and work of a BIM working group to share the best practices and challenges in the use of BIM. Working group members include construction companies, customers, designers, consultants and universities.

Other support activities

- Nordecon supported sports, education and culture through Nõmme Private Education Foundation, Tallinn City Theatre, and Klubi Tartu Maraton.
- The group supported the victims of the war in Ukraine mainly through the National Defence Promotion Foundation. The parent company made its annual Christmas donation to NGO Slava Ukraini.
- The group's subsidiary Embach Ehitus made its Christmas donation to the cancer treatment foundation The Gift of Life.
- The group's subsidiary Tariston gave back to local communities by supporting beach volleyball tournaments in Järva county and building stationary seating for spectators on the shores of an artificial lake in Paide.

Membership

- **Group companies belong to the following organisations:**
  - Estonian Chamber of Commerce and Industry
  - Estonian Association of Construction Entrepreneurs
  - Estonian Infra Construction 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, working groups and platforms:**
  - 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
  - Green Tiger

Performance indicators

	2022	2021	2020	2019	2018
Donations and support payments made by the group (€'000)	204	232	240	290	298

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 environmental regulations to ensure appropriate behaviour and to avoid possible sanctions and criticism from the communities. 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. All group companies have implemented an environmental management system that complies with ISO 14001. An environmental management 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 generated 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 but finding additional options for voluntary reduction of environmental impacts or recycling is quite difficult. However, we make efforts to raise the awareness and influence the behaviour of our subcontractors (e.g. in matters related to waste management on the construction site).

Nordecon is also keen on pursuing the circular economy where possible. We increasingly use reusable and recyclable building materials, but in the end a lot depends on the customer's preferences and wishes.

There is a clear trend towards more sustainable buildings and infrastructure. This is mainly attributable to the EU energy efficiency measures as well as the growing 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 participate in environmental awareness lectures and we advise clients who wish to find more sustainable solutions.

Examples from the year 2022

Soaring energy prices have increased customers' interest in finding the best solutions to reduce building operating costs. Measuring the carbon footprint of buildings is also gaining importance, but due to the lack of a generally agreed methodology, this has not yet become a contractual requirement.

On several occasions last year, the group proposed that customers select more environmentally friendly solutions and modify their construction projects accordingly. In many cases the proposals were accepted. The recommendations related, for example, to changes in the design of ventilation, energy and lighting systems.

The group has increased the number of employees involved in specialised works whose role is to help project managers plan and carry out processes related to sustainability aspects, such as obtaining a higher energy label or performing blower door tests, more efficiently and effectively.

Completion of a green building unique in Europe

At the end of the year Nordecon and NOBE completed the Alma Tomingas office building in Ülemiste City, Tallinn, which was designed and built to meet the requirements of the LEED Gold certificate for energy and environmental sustainability. On the engineering side, several complex and unique solutions were used, such as an in-building botanical garden, underground energy piles and a green roof. In addition, more sustainable construction materials were selected and the length of supply chains was shortened to reduce the environmental impact of construction activities. BIM was used to manage the construction processes and provide the developer with an as-built model, which allows managing the building more efficiently and with lower life-cycle costs.

Contributing to the construction of renewable energy production facilities

The group's subsidiary Nordecon Betoon has a team specialising in wind farm construction that has gained extensive expertise in the construction of wind turbine foundations and project management in Sweden and the Baltic countries. Building wind turbines has become increasingly popular in Estonia and the neighbouring countries, and the company aspires to be the best partner in the field. The year 2022 saw the completion of the Targale (Latvia) and Ventspils (Lithuania) wind farms. The construction of the Saarde wind farm will continue and the construction of the most powerful wind farm in the Baltics, Sopi-Tootsi, will begin in 2023. In addition, an environmentally friendly biomethane production facility was completed in Aravete, and a similar project is in progress in Ebavere, where Nordecon Betoon is responsible for the design and construction of the structural parts of the entire complex.

Performance indicators

	2022	2021
Compliance with environmental requirements		
Number of significant citations or orders served or fines charged by supervision authorities for violation 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	2
Energy consumption*		
Electricity consumed by the group's asphalt concrete plant and quarries, MWh	418	1,131
Fuels consumed by the group's asphalt concrete plant and quarries, thousand litres	1,376	722
Natural gas consumed by the group's asphalt concrete plant and quarries, thousand m^3	0	640
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	2,239	1,234
Carbon intensity ratio (CO_2 emissions in tonnes ÷ asphalt concrete produced in thousands of tonnes)	21.4	15.4
Other		
Number of buildings meeting higher than usual environmental standards delivered during the year	28	17

* The table reflects the results of Tariston AS. Group entities do not measure the energy consumption of other activities on a uniform basis.

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 operations 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.

Building materials that our companies use in the largest quantities include 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 2022

- The parent of the group began to proactively screen waste handlers with a view to selecting a business partner that can recycle the largest amount of waste generated by the company.
- During the construction of the Vektor commercial and residential complex (Pärnu mnt 137), a large quantity of limestone was extracted, which was used to produce high-quality crushed stone that was recycled on another construction site.
- The group's subsidiary Embach Ehitus recycled a significant amount of milled material generated during the construction of the Mõisavahe 71 apartment buildings in Tartu.

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 work, 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 disposed of consistent with applicable requirements.

We operate quarries in accordance with requirements and, when materials need to be transported, prefer quarries closest to the construction site. In rehabilitating and restoring the sites of quarries, we take into account the features of the surrounding area.

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 construction machinery and equipment. However, we are a general contractor and do not have direct control of the energy consumption of the work done by our subcontractors.

Examples from the year 2022

In 2022, the permitted levels of pollutants were not exceeded.

Transition to green energy

In 2022, Nordecon signed an agreement with Eesti Energia to transition all group entities to the consumption of green electricity. This is the biggest step taken in the Estonian construction sector towards the achievement of the national climate objectives to date. The agreement covers all subsidiaries and construction sites until the end of 2030. The transition to green energy will reduce our carbon emissions by over ten thousand tonnes over the term of the agreement. The agreement also enabled us to fix our electricity prices for a long period.

100% Roheline Energia

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 (current name 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 34 years. Besides construction companies, he has held senior positions at various other enterprises (Tallinna Kaubamaja Grupp AS, AS E-Betoonelement, OÜ Väokivi, Eesti Energia AS, etc.). He is an active member of the community and has contributed to the development of the business environment, education and national defence. For over 27 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 president of 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 Defence League and other governmental and non-governmental organisations. Toomas 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 (incl. AS Nordic Contractors, chairman of the board), Estonian Chamber of Commerce and Industry (chairman of the board), Nõmme Private Education Foundation (chairman of the council), National Defence Promotion Foundation (chairman of the council), Estonian Shooting Sport Federation (vice-president), Estonian Reserve Officers' Association (chairman of the board of elders)

Interests (exceeding 5%) in other companies: OÜ Luman ja Pojad and its subsidiaries and associates (incl. AS Nordic Contractors, Arealis AS, Arealis Holding AS and Nordecon AS), TL Holdinginvesteeringud 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 improving regional education and developing Estonian football. 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. 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. 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, PAKRI Teadus- ja Tööstuspark 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 (current name 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 obtain 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 constructions 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 2022 and 2021, including incidents involving group entities or employees, or incidents involving subcontractors or customers that 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 2022.

Corporate governance report

Nordecon AS has observed the Corporate Governance Recommendations (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 2022 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 2022, 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 2022, 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 2022, 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

The annual general meeting of the shareholders of Nordecon AS was held on 25 May 2022 in Tallinn, in the conference centre of the Radisson Blu Hotel Olümpia. The meeting began at 10 a.m. and was called by the board of Nordecon AS.

The notice of a general meeting includes information on the reason for calling the meeting as well as the parties that proposed it. Notices of annual general meetings and extraordinary general meetings are published in a national daily newspaper at least three weeks and at least one week in advance, respectively. In addition, notices of general meetings are published in the information system of the Nasdaq 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. the 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 2022, 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 2022, 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 (incl. 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 2022 in accordance with relevant requirements. The board informed the council of the group's performance and financial position on a regular basis. In 2022, 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 2022, 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 2022, 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 2022, 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 2022. In addition, on three occasions resolutions were adopted electronically. All members of the council participated in the meetings and in the electronic voting.

In 2022, 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.

The annual general meeting that convened on 20 May 2020 decided to reduce the remuneration of the members of the council established by the general meeting on 24 May 2017 by 20% and to 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 2022 amounted to €150 thousand and associated social security charges totalled €50 thousand (2021: €150 thousand and €50 thousand, respectively).

In 2022, the council had the following members:

Name	Position	Beginning of term of office	End of term of office	Remuneration 2022 (€'000)	Remuneration 2021 (€'000)
Toomas Luman	Chairman of the Council, representative of AS Nordic Contractors	9 January 2006	20 May 2025	86	86
Andri Hõbemägi	Vice-chairman of the Council, representative of AS Nordic Contractors	25 May 2013	24 May 2023	28	28
Vello Kahro	Member of the Council, independent	20 May 2015	20 May 2025	12	12
Sandor Liive	Member of the Council, independent	20 May 2015	20 May 2025	12	12
Andre Luman	Member of the Council, representative of AS Nordic Contractors	20 May 2020	20 February 2025	12	12

In 2022, 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 2022, 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 2022, 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 2022, 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 24^2 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 2022 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 2022, the company's threshold for notifying of significant construction contracts was €2.8 million. Nordecon AS made 29 stock exchange announcements in 2022, 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 (incl. 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.

In 2022, Nordecon AS complied with chapter 5 of CGC that relates to disclosure of information.

There were no meetings with investors in 2022.

The company has not disclosed the time and location of the meetings held with analysts or the presentations made to analysts in advance so that shareholders could participate as required by section 5.6. Compliance with the requirement is often technically difficult to achieve.

The company believes that by disclosing information on its website, and being open and approachable in its relations with shareholders, it has created sufficiently good alternatives and conditions to ensure equal access to information to all shareholders. The company does not share inside information at meetings with financial analysts and in communicating information relies on published financial information and presentations.

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 council submits the annual report that has been approved by the board 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 2022, 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 2022 totalled €48 thousand.

The auditor provided the audit committee formed by the council with a written memorandum on the company's audit of 2022, the auditor's findings and other significant matters that were discussed with the board.

In 2022, 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 €	2022	2021	2020	2019	2018
Open	1.21	1.15	1.04	0.91	1.25
High	1.29	1.84	1.21	1.09	1.29
Average	0.88	1.29	1.04	0.99	1.10
Low	0.65	1.08	0.78	0.89	0.89
Last closing price	0.69	1.20	1.14	1.03	0.89
Traded volume (number of securities traded)	2,599,303	7,037,117	6,021,881	3,254,930	1,707,399
Turnover, € million	2.40	9.32	5.99	3.24	1.93
Listed volume (31 December), thousand	32,375	32,375	32,375	32,375	32,375
Market capitalisation (31 December), € million	22.34	38.85	36.91	33.35	28.81

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

Ratio	2022	2021	2020	2019	2018
P/E	(6.0)	(6.0)	14.6	9.6	8.3
P/B	0.9	1.5	1.1	1.1	0.9

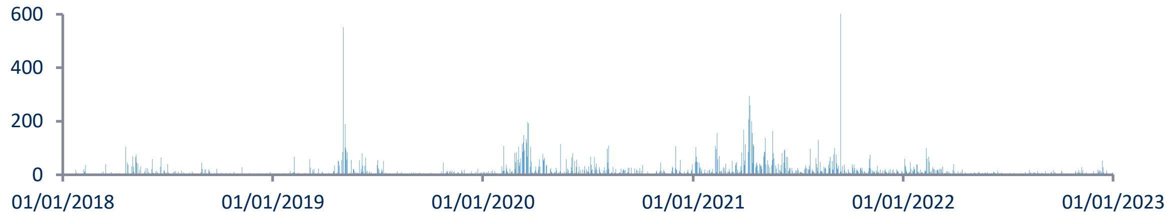
P/E = the period's last closing price of the share / earnings per share (EPS)

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

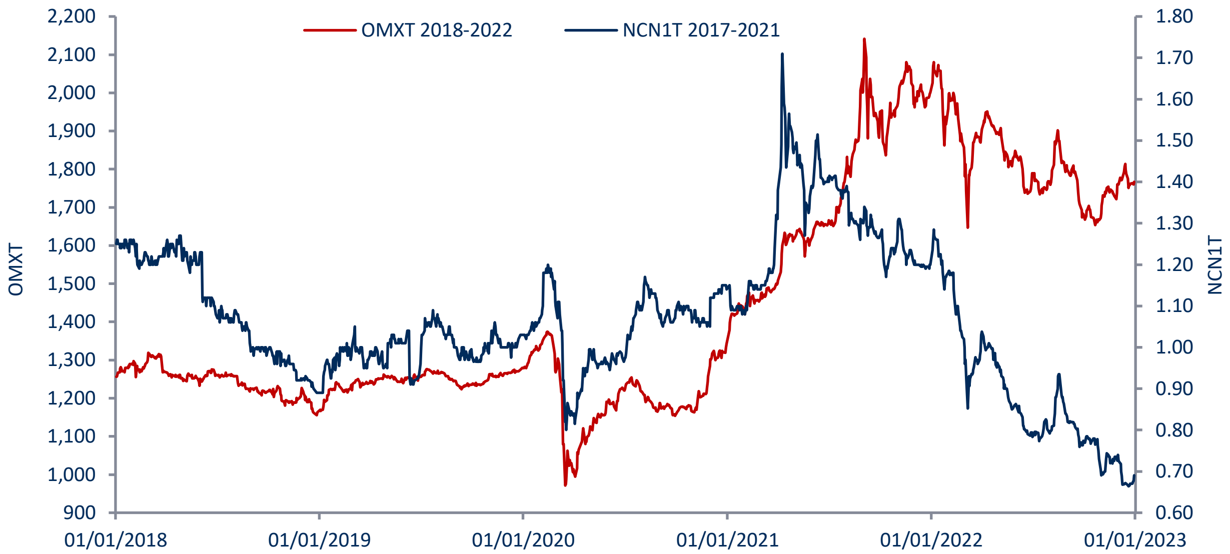
Movements in the price and turnover of the Nordecon AS share in 2018–2022

Movements in share price, €

Daily turnover, €'000



Movement of the share price compared with the OMX Tallinn index in 2018–2022



Index/equity	1 January 2018*	31 December 2022	+/-%
OMX Tallinn	1,242.12	1,766.73	42.24%
NCN1T	€1.23	€0.69	(43.9)%

* Closing price on the Nasdaq Tallinn Stock Exchange at 31 December 2017.

Shareholder structure

Largest shareholders of Nordecon AS at 31 December 2022

Shareholder	Number of shares	Ownership interest (%)
AS Nordic Contractors	16,563,145	51.16
Luksusjaht AS	4,322,342	13.35
Toomas Luman	700,300	2.16
Olegs Radcenko	574,200	1.77
Lembit Talpsepp	376,239	1.16
Nõmme Erahariduse SA	370,370	1.14
SEB Pank AS clients	300,000	0.93
SEB Life and Pension Baltic SE Estonian branch	255,000	0.79
Genadi Bulatov	250,600	0.77
Endel Palla	200,000	0.62

Shareholder structure of Nordecon AS at 31 December 2022

	Number of shareholders	Ownership interest (%)
Shareholders with interest exceeding 5%	2	64.51
Shareholders with interest from 1% to 5%	4	6.23
Shareholders with interest below 1%	6,622	26.64
Holder of own (treasury) shares	1	2.62
Total	**6,629**	**100**

Shareholder structure by shareholder category at 31 December 2022

Shareholders by business line and legal form	Number of shares	Ownership interest (%)
Companies	23,467,518	72.55
Individuals	7,793,261	24.00
Financial institutions (banks, investment funds)	859,704	2.66
Insurance companies	255,000	0.79
Total	**32,375,483**	**100**

Shareholder structure by shareholder domicile at 31 December 2022

Domicile	Number of shares	Ownership interest (%)
Estonia	31,089,056	96.03
Latvia	736,132	2.27
Lithuania	293,046	0.90
Finland	213,182	0.65
Netherlands	12,710	0.04
Sweden	9,931	0.03
Germany	8,232	0.03
United Kingdom	2,661	0.01
Denmark	2,627	0.01
France	2,455	0.01
Other	5,451	0.02
Total	**32,375,483**	**100**

Shares controlled by members of the council of Nordecon AS at 31 December 2022

Council member		Number of shares	Ownership interest (%)
Toomas Luman (AS Nordic Contractors, OÜ Luman ja Pojad)*	Chairman of the Council	17,288,445	53.40
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		**17,373,445**	**53.66**

* Companies controlled by the individual

Shares controlled by members of the board of Nordecon AS at 31 December 2022

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**

For information about share options, see the *Remuneration report*.

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, '000	Dividend per share €	Dividend pay-out ratio *
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%
2022	0	31,529	0	0

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

Remuneration report

The remuneration report contains information about the remuneration and other benefits provided to the board of Nordecon AS in 2022.

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 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. To satisfy the terms and conditions of the option plan, Nordecon AS issued a total of 1,618 thousand new shares with a total cost of €1,582 thousand in July 2014, 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 general meetings which convened on 24 May 2017 and 23 May 2018 amended the terms and conditions of the share option plan, extended the duration of the exercise period and changed the number of shares that could be acquired with the share options granted to the members of the board. The share option plan expired in September 2022.

Service fees of the board in 2022

The service fees and social security charges of the board of Nordecon AS for 2022 totalled €417 thousand and €138 thousand, respectively (2021: €369 thousand and €122 thousand, respectively).

€'000	Service fee	Other benefits	Performance-related pay	Total remuneration
Gerd Müller (chairman of the board)	188	16	0	204
Maret Tambek (member of the board)	126	13	0	139
Priit Luman (member of the board)	103	11	0	114

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 2022 comprise company car, telephone and training expenses.

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

€'000	2022	2021	2020	2019	2018
Service fees of the board*					
Gerd Müller (chairman of the board)	188	168	169	176	164
Maret Tambek (member of the board)	126	111	109	103	98
Priit Luman (member of the board)	103	90	93	98	87
Ando Voogma (member of the board)	-	-	61	103	98
Erkki Suurorg (member of the board)	-	-	-	-	29
Termination and non-competition benefits of the board					
Erkki Suurorg	-	-	-	-	180
Board member fees for managing a subsidiary of the group					
Maret Tambek	0	0.09	0.09	0.09	0.09
Group EBITDA	5,766	-797	7,003	7,311	6,021
Average annual remuneration of full-time employees	31	29	30	26	25

** Terms of office of members of the board:*

Gerd Müller	*8 January 2018 – 7 January 2024*
Maret Tambek	*1 May 2017 – 30 April 2023*
Priit Luman	*1 May 2017 – 30 April 2023*
Ando Voogma	*1 August 2017 – 31 July 2020*
Erkki Suurorg	*1 December 2005 – 31 March 2018*

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	*signed digitally*	20 April 2023
Priit Luman	Member of the Board	*signed digitally*	20 April 2023
Maret Tambek	Member of the Board	*signed digitally*	20 April 2023

Consolidated financial statements

Consolidated statement of financial position

€'000	Note	31 December 2022	31 December 2021
ASSETS			
Current assets			
Cash and cash equivalents	7	7,238	9,031
Trade and other receivables	8	48,084	48,091
Prepayments	9	6,728	4,947
Inventories	10	25,454	25,637
Total current assets		**87,504**	**87,706**
Non-current assets			
Other investments		76	76
Trade and other receivables	8	8,604	9,206
Investment property	12	8,347	5,599
Property, plant and equipment	13	17,669	17,433
Intangible assets	14	15,134	15,051
Total non-current assets		**49,830**	**47,365**
TOTAL ASSETS		**137,334**	**135,071**
LIABILITIES			
Current liabilities			
Borrowings	15	17,193	16,289
Trade payables	17	65,144	57,324
Other payables	18	8,324	7,459
Deferred income	19	6,996	11,539
Provisions	20	1,288	707
Total current liabilities		**98,945**	**93,318**
Non-current liabilities			
Borrowings	15	6,311	7,405
Trade payables	17	2,769	4,178
Provisions	20	2,049	2,044
Total non-current liabilities		**11,129**	**13,627**
TOTAL LIABILITIES		**110,074**	**106,945**
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	3,316	1,948
Retained earnings		2,691	6,341
Total equity attributable to owners of the parent		**22,915**	**25,197**
Non-controlling interests		**4,345**	**2,929**
TOTAL EQUITY		**27,260**	**28,126**
TOTAL LIABILITIES AND EQUITY		**137,334**	**135,071**

The notes on pages 62–116 are an integral part of these consolidated financial statements

Consolidated statement of comprehensive income

€'000	Note	2022	2021
Revenue	24	322,860	288,534
Cost of sales	28	(314,365)	(284,513)
Gross profit		**8,495**	**4,021**
Marketing and distribution expenses		(490)	(559)
Administrative expenses	29	(7,287)	(6,053)
Other operating income	30	2,049	519
Other operating expenses	30	(462)	(2,264)
Operating profit (loss)		**2,305**	**(4,336)**
Finance income	31	258	958
Finance costs	31	(3,740)	(1,320)
Net finance costs		**(3,482)**	**(362)**
Loss before income tax		**(1,177)**	**(4,698)**
Income tax expense	32	(264)	(808)
Loss for the period		**(1,441)**	**(5,506)**
Other comprehensive income (expense)			
Items that may be reclassified subsequently to profit or loss			
Exchange differences on translating foreign operations		1,368	(475)
Total other comprehensive income (expense)		**1,368**	**(475)**
TOTAL COMPREHENSIVE EXPENSE		**(73)**	**(5,981)**
Loss attributable to:			
- Owners of the parent	22	(3,650)	(6,310)
- Non-controlling interests		2,209	804
Loss for the period		**(1,441)**	**(5,506)**
Comprehensive expense attributable to:			
- Owners of the parent		(2,282)	(6,785)
- Non-controlling interests		2,209	804
Comprehensive expense for the period		**(73)**	**(5,981)**
Earnings per share attributable to owners of the parent:			
Basic earnings per share (€)	22	(0.12)	(0.20)
Diluted earnings per share (€)	22	(0.12)	(0.20)

The notes on pages 62–116 are an integral part of these consolidated financial statements

Consolidated statement of cash flows

€'000	Note	2022	2021
Cash flows from operating activities			
Cash receipts from customers[1]		390,195	352,378
Cash paid to suppliers[2]		(351,483)	(310,183)
VAT paid		(8,880)	(8,140)
Cash paid to and for employees		(26,075)	(25,893)
Income tax paid		(291)	(797)
Net cash from operating activities		**3,466**	**7,365**
Cash flows from investing activities			
Paid on acquisition of property, plant and equipment		(688)	(232)
Paid on acquisition of intangible assets		(122)	(19)
Proceeds from sale of property, plant and equipment		816	489
Loans provided		(25)	(34)
Repayments of loans provided		25	96
Dividends received		6	0
Interest received		9	12
Net cash from investing activities		**21**	**312**
Cash flows from financing activities			
Proceeds from loans received	15	4,581	1,922
Repayments of loans received	15	(4,879)	(3,766)
Payments of lease principal	15, 16	(3,481)	(3,318)
Interest paid		(984)	(1,051)
Dividends paid		(488)	(5,000)
Other payments made		(8)	(12)
Net cash used in financing activities		**(5,259)**	**(11,225)**
Net cash flow		**(1,772)**	**(3,548)**
Cash and cash equivalents at beginning of period		**9,031**	**12,576**
Effect of movements in foreign exchange rates		(21)	3
Decrease in cash and cash equivalents		(1,772)	(3,548)
Cash and cash equivalents at end of period		**7,238**	**9,031**

[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 62–116 are an integral part of these consolidated financial statements

Consolidated statement of changes in equity

€'000	Equity attributable to owners of the parent								
	Share capital	Treasury shares	Capital reserve	Share premium	Translation reserve	Retained earnings	Total	Non-controlling interests	Total
Balance at 31 December 2020	**14,379**	**(660)**	**2,554**	**635**	**2,423**	**14,543**	**33,874**	**3,361**	**37,235**
Loss for the period	0	0	0	0	0	(6,310)	(6,310)	804	(5,506)
Other comprehensive expense	0	0	0	0	(475)	0	(475)	0	(475)
Transactions with owners									
Dividend distributed	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**
Loss for the period	0	0	0	0	0	(3,650)	(3,650)	2,209	(1,441)
Other comprehensive income	0	0	0	0	1,368	0	1,368	0	1,368
Transactions with owners									
Dividend distributed	0	0	0	0	0	0	0	(793)	(793)
Total transactions with owners	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**(793)**	**(793)**
Balance at 31 December 2022	**14,379**	**(660)**	**2,554**	**635**	**3,316**	**2,691**	**22,915**	**4,345**	**27,260**

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

The notes on pages 62–116 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 51.16% 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 2022 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 2022 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 37 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 (incl. 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 2023.

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 2022. During the period, Estonia's economy decreased by 1.3% compared with 2021. The strongest positive impact came from accommodation and food service activities, which showed vigorous recovery after the Covid crisis. The strongest negative effects came from real estate activities, the energy sector, trade, agriculture and financial activities. Private consumption grew by 2.6% while government consumption remained stable compared with 2021. Investments dropped by 10.9% year on year.

In 2022, Estonian construction companies’ total output (construction volume) decreased by 1% compared with a year earlier. According to preliminary data from Statistics Estonia, Estonian construction companies’ total output in Estonia and abroad amounted to €4.2 billion, the figure comprising building construction of €2.8 billion and infrastructure construction of €1.4 billion. Building construction decreased by 6% and infrastructure construction (incl. roads, port facilities, pipelines, telecommunication and power lines) grew by 6% compared with 2021. In the buildings market, the new build volume remained stable compared with a year earlier but the volume of renovation and reconstruction works decreased in 2022. In the infrastructure market, the volume of renovation and reconstruction works increased but new build decreased.

The construction market continues to be strongly influenced by investments made by the public sector. As input prices have surged (according to Statistics Estonia, the construction price index increased by 17.8% in 2022), public capital investments as a whole will dwindle in 2023 because planned building and infrastructure projects can no longer be funded with originally planned resources.

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 or 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 net realisable 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 net realisable values of 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 (incl. 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. The investment properties were measured using the sales comparison method and the discounted cash flow method. The latter was used for properties which are located in areas where the number of sales transactions involving properties without buildings during the period was insufficient for the sales comparison method. Each property was measured separately, taking into account the opportunities and specific features of the detailed spatial plan or planned building rights (incl. the location of the property). Based on the valuation outcomes, investment properties located in Estonia were measured to fair value at the end of the reporting period, which involved increasing their carrying amounts by €914 thousand in total. Russia's military invasion of Ukraine in February 2022 and continuing military aggression against Ukraine have made Ukraine's economic situation highly unstable. The volatility of inputs used to measure the fair value of investment properties in the circumstances of a war created a situation where it was not possible to obtain a valuation report from an independent internationally recognised appraiser regarding the fair value of the group's Ukrainian investment property as at 31 December 2022. Based on the valuation report issued by an independent appraiser in 2021, the group wrote the property down by €166 thousand. The write-down was recognised based on the time factor, i.e. the deferral of the completion of the development project. 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 payments 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 quantities permitted to be extracted or, if lower, the quantities planned to be extracted. The cost per tonne thus obtained is used to recognise and subsequently adjust the provision based on the actual quantities 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 (incl. 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 to estimate the value in use of the group's CGUs range from 10.2% to 10.7%. The group did not identify a need for recognising an impairment loss for goodwill as at 31 December 2022 or 31 December 2021.

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. 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). Russia's military invasion of Ukraine in February 2022 and continuing military aggression against Ukraine have made Ukraine's economic situation highly unstable and thus it was not possible to obtain a valuation report from an independent internationally recognised appraiser regarding the fair value of the group's Ukrainian development project as at 31 December 2022. Based on the valuation report issued by an independent appraiser in 2021, the loan provided to the Ukrainian associate V.I. Center TOV was written down in 2022 by €825 thousand. The write-down was recognised due to the time factor, i.e. the deferral of the completion of the development project.

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 2022. Their application did not have a material impact on the group's financial statements.

Amendments to IFRS 3 *Business Combinations*

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.

Amendments to IAS 16 *Property, Plant and Equipment*

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 by 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).

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

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.

New standards, amendments and interpretations not yet effective

At 31 December 2022, 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.)

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.)

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.)

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.)

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.

***Classification of Liabilities as Current or Non-current, Deferral of effective date* – Amendments to IAS 1**

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

The amendments to IAS 1 on the classification of liabilities as current or non-current was issued in January 2020 with an original effective date of 1 January 2022. However in response to the Covid-19 pandemic, the effective date was deferred by one year to provide companies with more time to implement the classification changes resulting from the amended guidance.

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

Amendments to IFRS 16 *Leases – Lease Liability in a Sale and Leaseback*

(Effective for annual periods beginning on or after 1 January 2024; to be applied retrospectively to the date when the entity initially applied IFRS 16. Early application is permitted.) *The amendments are not yet endorsed by the EU.*

Amendments to IFRS 16 *Leases* impact how a seller-lessee accounts for variable lease payments that arise in a sale-and-leaseback transaction. The amendments introduce a new accounting model for variable payments. The amendments confirm the following:

- On initial recognition, the seller-lessee includes variable lease payments when it measures a lease liability arising from a sale-and-leaseback transaction.
- After initial recognition, the seller-lessee applies the general requirements for subsequent accounting of the lease liability such that it recognises no gain or loss relating to the right of use it retains.

A seller-lessee may adopt different approaches that satisfy the new requirements on subsequent measurement.

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

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 or the need to write the investment down.

Translation of the financial statements of foreign subsidiaries

The assets and liabilities of foreign subsidiaries (incl. 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 2022	11.1218	38.9510
€1	31 December 2021	10.2503	30.9226

* 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 carrying amount of the receivable and the proceeds 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 (incl. 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 (incl. 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) purchased 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 (incl. 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 items 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, deposits, 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 quantities of raw material actually extracted to the quantities 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.

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 the options).

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% (2021: 18%), Finland 20% (2021: 20%), Sweden 22% (2021: 22%) and Lithuania 15% (2021: 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 the operating segment (incl. 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, 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 2022, the share of revenue from public sector customers decreased somewhat and accounted for around 35% (2021: around 37%). The largest public sector customers were the Transport Administration and the Centre for Defence Investment whose contracts accounted for around 9% and 6% of the group's revenue, respectively (2021: 15% and 3%, 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 external 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 2022 or 31 December 2021 (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 2023

At the reporting date, the group's current assets and current liabilities amounted to €87,504 thousand and €98,945 thousand, respectively, and the current ratio was 0.88 (31 December 2021: €87,706 thousand and €93,318 thousand, respectively, and the current ratio was 0.94). Current liabilities included borrowings of €17,193 thousand (31 December 2021: €16,289 thousand). A significant share of current borrowings is made up of overdrafts of €11,472 thousand (2021: €10,248 thousand).

The group's management believes that in 2023 the group's liquidity position will be adequate to allow the group to conduct sustainable and profitable operating activities and to settle its liabilities to counterparties on a timely basis. In order to ensure profitability, it is important to respond quickly to market changes. Due to a steep decline in investments made in road construction, the group made changes in 2022: road construction operations were reorganised to eliminate duplication of activities and thus to ensure more efficient use of resources and profitability. For more precise management of the construction process and cost-saving, the group will continue to implement various IT solutions. To ensure liquidity, the group uses overdraft facilities and factoring that help overcome the mismatch between settlements with customers and suppliers (subcontractors).

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.

Due to Russia's military invasion of Ukraine in February 2022 and Ukraine's previous political and economic instability, the exchange rate of the hryvnia has been volatile. The Ukrainian hryvnia was devalued in July and the exchange rate of the hryvnia weakened against the euro by approximately 21% in 2022. As a result, the group's Ukrainian subsidiaries, which have to translate their euro-denominated loans into the local currency, recognised a foreign exchange loss of €1,416 thousand (2021: a gain of €711 thousand). Exchange gains and losses on financial instruments have been 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.

The group's 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 8% in 2022. The translation of a loan provided to the Swedish subsidiary in euros into the local currency gave rise to an exchange loss of €112 thousand (2021: a gain of €16 thousand). Exchange gains and losses on financial instruments are recognised in profit or loss 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.

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.

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, Latvia, Lithuania and Ukraine. Revenues generated in Finland and Ukraine accounted for 2% and under 1% of the group's total revenue, respectively, and there was no revenue from the Swedish market (2021: Sweden under 1%, Finland 3%, Ukraine 2%). At the year-end, assets located in Sweden, Finland and Ukraine accounted for 0.1%, 2% and 8% of the group's total assets, respectively (2021: Sweden 0.4%, Finland 2%, Ukraine 9%). The group does project-based work in Latvia and Lithuania where in 2022 two projects were performed.

In 2022, revenue generated outside Estonia decreased significantly compared with a year earlier. Due to Russia's military invasion of Ukraine, the business volumes of the group's subsidiary Eurocon Ukraine TOV declined substantially. The military 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 markets as well as the value of financial instruments related to Ukraine (note 36). Real estate development activities which require major investment remain suspended (the group has currently stakes 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.

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 are exposed to 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 (incl. 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 contract[3] has not yet been signed is determined based on the sales price of the property in the contract under the law of obligations. The method is used 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 transaction have been agreed before the end of the reporting period and they have not changed significantly by the date of the transaction.

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

The group measured the fair values of its investment properties using the sales comparison method and the discounted cash flow method. The valuations were performed by the group's real estate specialists with the assistance of independent experts. Based on the valuation results, the carrying amount of the group's investment properties in Estonia was increased by €914 thousand and the carrying amount of the group's investment property in Ukraine was reduced by €166 thousand. The impact of possible changes in estimates on the value of investment properties is disclosed in note 12.

€'000 As at 31 December	2022	2021
Total interest-bearing liabilities (note 15)	23,504	23,694
Cash and cash equivalents (note 7)	(7,238)	(9,031)
Net interest-bearing liabilities	16,266	14,663
Total equity	27,260	28,126
Invested capital (interest-bearing liabilities + equity)	50,764	51,820
Gearing ratio*	32%	28%

* 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.

Dividends distributed by Nordecon AS in previous years:

Year of pay-out	Total dividend paid €'000	Number of shares, '000	Dividend per share €	Dividend pay-out ratio*
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%
2022	0	31,529	0	0

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

NOTE 6. Group entities

At 31 December 2022, the Nordecon group had 20 consolidated subsidiaries (2021: 20), of which 14 were incorporated and domiciled in Estonia (2021: 14), 3 in Ukraine (2021: 3), 1 in Lithuania (2021: 1), 1 in Sweden (2021: 1) and 1 in Finland (2020: 1).

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

Subsidiary	Core business	Country of incorporation	Ownership interest in 2022	Ownership interest in 2021
Nordecon Betoon OÜ	Concrete works	Estonia	52	52
Tariston AS	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 2022, the group had interests in 2 associates (2021: 2). Further information about equity-accounted investees is presented in note 11.

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

€'000 Company	2022 Nordecon Betoon OÜ	NOBE Rakennus OY	Embach Ehitus	Total
Current assets	27,505	2,490	13,538	**43,533**
Non-current assets	1,746	0	915	**2,661**
Current liabilities	20,617	1,948	9,335	**31,900**
Non-current liabilities	1,577	3	1,019	**2,599**
Equity	7,056	539	4,099	**11,694**
Revenue	96,600	6,330	37,567	**140,497**
Profit (loss)	2,786	(222)	2,002	**4,566**
Non-controlling interests' share of profit (loss)	1,337	(107)	981	**2,211**
Non-controlling interests' shareholding	48%	48%	49%	
Cash flows from operating activities	1,178	335	168	**1,681**
Cash flows from financing activities	(1,154)	110	(1,062)	**(2,106)**
Cash flows from investing activities	(418)	0	0	**(418)**
Net cash flow	(394)	445	(894)	**(843)**

€'000 Company	2021 Nordecon Betoon OÜ	NOBE Rakennus OY	Embach Ehitus	Total
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**

At 31 December 2022, non-controlling interests in the group's equity totalled €4,345 thousand (31 December 2021: €2,929 thousand), including non-controlling interests in Embach Ehitus OÜ of €469 thousand, Nordecon Betoon OÜ of €3,394 thousand and NOBE Rakennus OY of €489 thousand (31 December 2021: Embach Ehitus OÜ of €(120) thousand, Nordecon Betoon OÜ of €2,457 thousand and NOBE Rakennus OY of €595 thousand). The remaining non-controlling interests, none of which is individually material for the group, totalled €(7) thousand (31 December 2021: €(3) thousand).

NOTE 7. Cash and cash equivalents

€'000	31 December 2022	31 December 2021
Current accounts	7,238	9,031
Total cash and cash equivalents	**7,238**	**9,031**

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% (2021: 0.01%). A significant share of the group's current accounts is with the following banks: Swedbank 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 Current items	Note	31 December 2022	31 December 2021
Trade receivables	33	31,882	31,160
Retentions receivable	25, 33	6,501	6,063
Receivables from related parties	33, 36	373	211
Other receivables	33	147	78
Total receivables		**38,903**	**37,512**
Due from customers for contract work	25,33	9,181	10,579
Total current trade and other receivables		**48,084**	**48,091**

€'000 Non-current items	Note	31 December 2022	31 December 2021
Loans to related parties	33, 36	7,899	8,481
Receivables from related parties	33, 36	235	328
Other non-current receivables	33	470	397
Total non-current trade and other receivables		**8,604**	**9,206**

Trade receivables are presented net of the impairment allowance, which at the year-end amounted to €(102) thousand (31 December 2021: €(546) 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 2022 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 recoverable 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 2022, the carrying amount of the loan was €7,899 thousand (31 December 2021: €8,481 thousand): loan principal and accrued interest totalled €11,652 thousand (31 December 2021: €11,408 thousand) and credit loss allowances amounted to €3,753 thousand, including the loss allowance recognised in 2022 of €826 thousand (2021: no loss allowance was recognised). The group measures the value of the planned development project using the assistance of an internationally recognised independent appraiser. Significant inputs estimated by management include 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). Russia's military invasion of Ukraine in February 2022 and continuing military aggression against Ukraine have made Ukraine's economic situation highly unstable and thus it was not possible to obtain a valuation report from an independent internationally recognised appraiser regarding the fair value of the group's Ukrainian development project as at 31 December 2022. The write-down recognised in 2022 was made based on the valuation report issued by an independent internationally recognised appraiser in 2021. The write-down was recognised due to the time factor, i.e. the deferral of the completion of the development project. The property has not been damaged in the war and the group has control of the property.

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 not expected to occur sooner than within the next 8 years. 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.

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 2022	31 December 2021
Prepayments to suppliers	5,951	4,042
Prepaid taxes	620	665
Prepaid expenses	157	240
Total prepayments	**6,728**	**4,947**

Prepayments to suppliers comprise prepayments for services of €4,779 thousand (2021: €2,624 thousand) and building materials of €1,172 thousand (2021: €1,418 thousand).

NOTE 10. Inventories

€'000	31 December 2022	31 December 2021
Raw materials and consumables	4,228	3,885
Work in progress	10,793	8,619
Apartments and parking spaces for sale	223	230
Properties purchased for development and pre-development costs	10,210	12,903
Total inventories	**25,454**	**25,637**

In 2022, inventories of €282,865 thousand (2021: €250,912 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 2022	31 December 2021
Capitalised pre-development costs	865	883
Properties purchased for development	9,345	12,020
Total	**10,210**	**12,903**
Of which borrowing costs	921	844

Capitalised borrowing costs accounted for 8% of the group's total borrowing costs in 2022 (2021: 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) purchased for development was €9,345 thousand (2021: €12,020 thousand). A property purchased 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 acquired for development were written down in the reporting or the comparative period. According to management's assessment, at 31 December 2022, properties purchased for development comprised properties of €4,147 thousand whose development will start within a year and properties of €5,236 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 purchased 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 €2,000 to €3,500, depending on the location). The group did not identify a need for recognising an impairment loss as at 31 December 2022 or 31 December 2021. A sensitivity analysis showed that if actual sales proceeds were 10% smaller (compared with the estimates), properties purchased for development would have to be written down by around €5,957 thousand.

NOTE 11. Investments in equity-accounted investees

General information on equity-accounted investees

Name and type of investee		Domicile	The group's interest 31 December 2022	The group's interest 31 December 2021	Core business
V.I. Center TOV	Associate	Ukraine	44%	44%	Real estate development
Kastani Kinnisvara OÜ	Associate	Estonia	26%	26%	Real estate development

The group has no liabilities related to associates that are accounted for off the statement of financial position.
At 31 December 2022, the carrying amount of the investments was zero and the investments were accounted for off the statement of financial position.

Financial information of equity-accounted investees

2022

Summary financial information for associates presented as separate companies

€'000

Company	V.I. Center TOV	Kastani Kinnisvara OÜ	Total
Current assets	277	2	**279**
Non-current assets	7,251	0	**7,251**
Current liabilities	24,551	0	**24,551**
Equity	(17,024)	2	**(17,022)**
Revenue	0	0	**0**
Expenses	5,685	0	**5,685**
Loss	(5,685)	0	**(5,685)**
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 2022, V.I. Center TOV's current liabilities included current liabilities to the group of €11,653 thousand (31 December 2021: €11,412 thousand) (see note 8).
On 15 November 2022, the shareholders of Kastani Kinnisvara OÜ decided to wind up the company and to start the liquidation proceedings. At the date these financial statements are authorised for issue, the liquidation proceedings are in progress.

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'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	Recorded in 2022			Recorded in 2021		
	Loss	In the group's profit or loss	Off the statement of financial position	Profit	In the group's profit or loss	Off the statement of financial position
V.I. Center TOV	(5,685)	0	(5,685)	2,901	0	2,901
Kastani Kinnisvara OÜ	0	0	0	0	0	0
Total	**(5,685)**	**0**	**(5,685)**	**2,901**	**0**	**2,901**

NOTE 12. Investment property

€'000	2022	2021
Investment property at 1 January	**5,599**	**5,639**
Reclassification from inventories	2,000	0
Write-up of investment property	914	128
Write-down of investment property	(166)	(168)
Investment property at 31 December	**8,347**	**5,599**

The period's rental income on investment property amounted to €6 thousand (2021: €6 thousand) and direct property management expenses totalled €3 thousand (2021: €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.

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. Russia's military invasion of Ukraine in February 2022 and continuing military aggression against Ukraine have made Ukraine's economic situation highly unstable. The volatility of inputs used to measure the fair value of investment properties in the circumstances of a war created a situation where it was not possible to obtain a valuation report from an independent internationally recognised appraiser regarding the fair value of the group's Ukrainian investment property as at 31 December 2022. Based on a valuation report issued by an independent appraiser in 2021, the group wrote the property down by €166 thousand (2021: wrote up €2 thousand). The write-down was recognised based on the time factor, i.e. the deferral of the completion of the development project. The property has not been damaged in the war and the group has control of the property. At 31 December 2022, the carrying amount of the property was €1,812 thousand.

Based on the valuation of the fair value of the properties located in Estonia, the group recognised fair value gains of €914 thousand (2021: gains of €128 thousand and losses of €168 thousand).

The group measured the fair values of its investment properties in Estonia using the sales comparison method and the discounted cash flow method (see note 2 for the description).

The properties measured using the discounted cash flow method 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 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 €559-850 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%;
- an average rental price of €9.5–10 per square metre for commercial premises and €5.8 per square metre for production premises and warehouses;

- a forecast period of 2023–2032
- 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 €1,044 thousand;
- if construction prices increased by 5% compared with the ones applied, the investment properties would have to be written down by around €738 thousand;
- if the discount rate increased by 1 percentage point, the investment properties would have to be written down by around €459 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 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**
Additions	0	286	412	170	4,035	4,903
Disposals	(13)	(1,646)	(384)	(107)	(1,413)	(3,563)
Transfers	0	4,668	(122)	(51)	(4,545)	(50)
At 31 December 2022	**3,172**	**20,910**	**5,383**	**151**	**14,680**	**44,296**
Accumulated depreciation						
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**
Depreciation for the year	236	953	126	0	2,095	3,410
Disposals	(15)	(1,370)	(222)	0	(749)	(2,356)
Transfers	(20)	3,003	(111)	0	(2,872)	0
At 31 December 2022	**1,490**	**18,285**	**3,433**	**0**	**3,419**	**26,627**
Carrying amount						
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**
At 31 December 2022	**1,682**	**2,625**	**1,950**	**151**	**11,261**	**17,669**

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 amounted to €816 thousand (see the statement of cash flows). In 2021, proceeds from the sale of property, plant and equipment were €489 thousand. Gain on the sale of property, plant and equipment amounted to €458 thousand (2021: €280 thousand) (note 30).

Depreciation expense has been recognised in the cost of sales in an amount of €2,514 thousand (2021: €2,621 thousand) (note 28) and in administrative expenses in an amount of €896 thousand (2021: €878 thousand) (note 29).

In 2022, the group signed new lease contracts of €3,589 thousand (2021: €2,997 thousand) (note 16).

NOTE 14. Intangible assets

€'000	Goodwill	Software licences	Trade-marks	Development expenditures	Pre-payments	Total
Cost						
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**	**20,643**
Additions	0	123	0	0	12	135
Disposals	0	(3)	(115)	0	0	(118)
At 31 December 2022	**18,773**	**654**	**748**	**473**	**12**	**20,660**
Accumulated amortisation and impairment losses						
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**
Amortisation for the year	0	51	0	0	0	51
Disposals	0	(2)	(115)	0	0	(117)
At 31 December 2022	**4,597**	**181**	**748**	**0**	**0**	**5,526**
Carrying amount						
At 31 December 2020	**14,176**	**273**	**0**	**457**	**60**	**14,966**
At 31 December 2021	**14,176**	**402**	**0**	**473**	**0**	**15,051**
At 31 December 2022	**14,176**	**473**	**0**	**473**	**12**	**15,134**

Capitalised development expenditures result from preparations made for the extraction of sand from the seabed. The preparations will continue in 2023.

Amortisation has been recognised in administrative expenses in an amount of €51 thousand (2021: €40 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 amounts of the CGUs to which goodwill has been allocated.

Carrying amounts of goodwill by subsidiaries and CGUs

Company	Interest 2022	Interest 2021	31 December 2022	€'000 31 December 2021
Nordecon AS				
Goodwill	-	-	11,973	11,973
Of which: Buildings			9,216	9,216
Infrastructure			2,757	2,757
Subsidiaries				
Nordecon Betoon 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 2023–2026 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 44% and 56%, respectively.
- The cost of debt was estimated based on the CGUs' actual loan interest rates, which ranged from 2.6% to 7.4%. 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 (incl. the budgets approved by management for 2023) 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 (incl. the budgets approved by management for 2023) 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 2023.
- 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 2023 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	2023–2026 + terminal year
Discount rate	10.3%
Revenue change	2023: 6%, 2024–2026: compound annual growth rate (CAGR) 12.9%, terminal year: 1.0%
Gross margin	2023: based on budget, 2024–2026 and terminal year: 5.0%
Administrative expenses	See general assumptions, 2.0% of revenue
Working capital	See general assumptions
Capital expenditures	See general assumptions

Nordecon AS Buildings	Assumptions applied
Forecast period	2023–2026 + terminal year
Discount rate	10.7%
Revenue change	2023: (23.5)%, 2024–2026: compound annual growth rate (CAGR) 3.3%, terminal year: 1.0%
Gross margin	2023: based on budget, 2024–2026 and terminal year: 5.5–6.0%
Administrative expenses	See general assumptions, 3.5% of revenue
Working capital	See general assumptions
Capital expenditures	See general assumptions

Nordecon Betoon OÜ	Assumptions applied
Forecast period	2023–2026 + terminal year
Discount rate	10.7%
Revenue change	2023: (21)%, 2024–2026: compound annual growth rate (CAGR) 3.6%, terminal year: 1.0%
Gross margin	2023: based on budget, 2024–2026 and terminal year: 5.5–6.0%
Administrative expenses	See general assumptions, 2.5% of revenue
Working capital	See general assumptions
Capital expenditures	See general assumptions

Kaurits OÜ	Assumptions applied
Forecast period	2023–2026 + terminal year
Discount rate	10.2%
Revenue change	2023: 54%, 2024–2026: compound annual growth rate (CAGR) 9.8%, terminal year: 1.0%
Gross margin	2023: based on budget, 2024–2026 and terminal year: 6.0–7.0%
Administrative expenses	See general assumptions, 3.0% of revenue
Working capital	See general assumptions
Capital expenditures	See general assumptions, 2023–2026: continuing renewal of machinery fleet.

* The road construction operations of Nordecon AS were transferred to the subsidiary Tariston AS effective from 1 January 2023. The value in use of the goodwill allocated to the infrastructure segment of Nordecon AS has been estimated using the forecasts for Tariston AS.

According to the results of impairment testing, there was no need to write goodwill down in 2022 or in 2021.

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 0.4 percentage points for Kaurits OÜ and 0.7 percentage points for Nordecon AS Infrastructure, 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 Infrastructure would have to be written down by €973 thousand and €1,964 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 €1,657 thousand, and the goodwill allocated to Nordecon AS Infrastructure would have to be written down by €2,757 thousand. Other items of goodwill would not have to be written down.

NOTE 15. Borrowings

Current borrowings

€'000	Note	31 December 2022	31 December 2021
Overdrafts		11,472	10,248
Current portion of non-current borrowings, of which:		5,721	6,041
Bank loans		2,625	3,074
Lease liabilities	16	3,096	2,967
Total current borrowings		**17,193**	**16,289**

Non-current borrowings

€'000	Note	31 December 2022	31 December 2021
Total non-current borrowings		8,936	13,445
Of which current portion		2,625	6,041
Non-current portion, of which:		**6,311**	**7,405**
Bank loans		0	1,073
Lease liabilities	16	6,311	6,332

Details of loans as at 31 December 2022

€'000 Loan type	Base currency	Interest rate	Up to 1 year	1–2 years	3-… years	Total loan	Maturity date
Overdraft	€	4%	6,230	0	0	6,230	31 May 2023
Overdraft	€	6.5%	4,840	0	0	4,840	20 October 2023
Overdraft	€	5%	402	0	0	402	8 September 2023
Working capital loan	€	6M EURIBOR + 5.5%	1,075	0	0	1,075	10 October 2023
Investment loan	€	6M EURIBOR + 4.0%	1,550	0	0	1,550	5 June 2023
Total loans			**14,097**	**0**	**0**	**14,097**	

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

Details of loans as at 31 December 2021

€'000 Loan type	Base currency	Interest rate	Up to 1 year	1–2 years	3-… years	Total loan	Maturity 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**	**14,395**	

Reconciliation of financial liabilities to cash flows

€'000	Note	2022	2021
Balance of financial liabilities at beginning of year		**23,694**	**25,860**
Proceeds from loans received		4,581	1,922
Repayments of loans received		(4,879)	(3,766)
Payments of the principal portion of lease liabilities	16	(3,481)	(3,318)
Addition of lease liabilities (new leases)	16	3,589	2,997
Change in the value of derivatives		0	(1)
Balance of financial liabilities at end of year		**23,504**	**23,694**

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

The group leases different buildings, 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 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**
Additions		988	3,047	0	4,035
Disposals		(404)	(1,009)	0	(1,413)
Transfers to property, plant and equipment		0	(4,545)	0	(4,545)
At 31 December 2022		**3,419**	**11,239**	**22**	**14,680**
Accumulated depreciation					
At 31 December 2020		**588**	**3,042**	**0**	**3,630**
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**
Additions		0	0	0	0
Depreciation for the year		484	1,604	7	2,095
Disposals		(195)	(554)	0	(749)
Transfers to property, plant and equipment		0	(2,872)	0	(2,872)
At 31 December 2022		**1,448**	**1,958**	**13**	**3,419**
Carrying amount					
At 31 December 2020		**2,185**	**10,136**	**0**	**12,321**
At 31 December 2021		**1,676**	**9,966**	**16**	**11,658**
At 31 December 2022		**1,971**	**9,281**	**9**	**11,261**

Lease liabilities

The group as a lessee

€'000	Note	2022	2021
Lease liabilities at beginning of year		**9,299**	**9,655**
Addition		3,589	2,997
Offsetting		0	(35
Payments of the principal portion of lease liabilities		(3,481)	(3,318)
Lease liabilities at end of year, of which falling due:		**9,407**	**9,299**
Up to 1 year	15	3,096	2,967
1–5 years	15	6,311	6,332
Base currency €		9,407	9,299
Interest rate for contracts denominated in €*		2.9%-5.9%	1.9%-4.2%
Weighted average interest rate		4.1%	2.8%
Interest expense of the period		291	300
Cash outflows related to leases		(3,772)	(3,618)

* 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			2022			2021
Payable	Minimum lease payments*	Interest	Present value of minimum lease payments	Minimum lease payments*	Interest	Present value of minimum lease payments
Up to 1 year	3,435	339	3,096	3,201	234	2,967
1–5 years	6,742	432	6,311	6,611	279	6,332
Total	**10,177**	**771**	**9,407**	**9,812**	**513**	**9,299**

* 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	
2022 – Leases under IFRS 16	
Interest expense on leases	291
Lease expenses on leases of low-value assets and short-term leases	6,403
2021 – Leases under IFRS 16	
Interest expense on leases	300
Lease expenses on leases of low-value assets and short-term leases	9,760

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 include purchase options that can be exercised in certain circumstances. 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 2022	31 December 2021
Trade payables		46,121	44,752
Accrued expenses related to contract work		18,754	12,400
Payables to related parties	36	269	172
Total current trade payables	33	**65,144**	**57,324**
Trade payables	33	2,769	4,178
Total non-current trade payables		**2,769**	**4,178**

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 2022	31 December 2021
Payables to employees		4,556	4,094
Taxes payable		3,607	2,708
Dividends payable		14	14
Accrued expenses		89	44
Miscellaneous payables		58	599
Total current other payables	33	**8,324**	**7,459**

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 2022	31 December 2021
Value added tax	1,416	722
Personal income tax	622	484
Social security tax	990	831
Other taxes	253	411
Deferred income tax liability	326	260
Total taxes payable	**3,607**	**2,708**

NOTE 19. Deferred income

€'000	Note	31 December 2022	31 December 2021
Due to customers for contract work	25	3,600	4,179
Advances received for goods and services		3,396	7,360
Total deferred income		**6,996**	**11,539**

NOTE 20. Provisions

€'000	31 December 2022	31 December 2021
Current provisions	1,288	707
Non-current provisions	2,049	2,044
Total provisions	**3,337**	**2,751**

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)	2022	2021
Opening balance	**1,335**	**1,309**
Provisions used and reversed	(1,334)	(1,020)
Provisions recognised	1,603	1,046
Closing balance, of which:	**1,604**	**1,335**
Current portion	685	421
Non-current portion	919	914

Rehabilitation provisions (€'000)	2022	2021
Opening balance	**1,280**	**1,017**
Provisions used and reversed	(202)	(34)
Provisions recognised	221	297
Closing balance, of which:	**1,299**	**1,280**
Current portion	169	150
Non-current portion	1,130	1,130

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)	2022	2021
Opening balance	**136**	**380**
Provisions recognised	600	136
Provisions used	(302)	(380)
Closing balance, of which:	**434**	**136**
Current portion	434	136
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 2022, there was no provision for onerous construction contracts (31 December 2021: €136 thousand).

NOTE 21. Equity

Share capital

€'000	2022	2021
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 2021: €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 €3,316 thousand (31 December 2021: €1,948 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 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).

The group did not distribute dividends in 2022.

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.

	2022	2021
Loss for the year attributable to owners of the parent (€'000)	(3,650)	(6,310)
Weighted average number of shares outstanding during the period ('000)	31,528	31,528
Basic earnings per share (€)	(0.12)	(0.20)
Diluted earnings per share (€)	(0.12)	(0.20)

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. 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 general meetings which convened on 24 May 2017 and 23 May 2018 amended the terms and conditions of the share option plan, extended the duration of the exercise period and changed the number of shares that could be acquired with the share options granted to the members of the board. The share option plan expired in September 2022.

Under the plan, options for the acquisition of 229,857 shares were exercised and share options for the acquisition of 1,388,898 shares expired.

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 (incl. 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 (incl. 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.

2022

€'000

	Note	Buildings	Infrastructure	Total
Total revenue		**260,585**	**62,848**	**323,433**
Inter-segment revenue		0	(800)	(800)
Revenue from external customers	27	**260,585**	**62,048**	**322,633**
Gross profit (loss) of the segment		**10,725**	**(1,480)**	**9,245**
Depreciation and amortisation		(734)	(2,123)	(2,857)
Segment assets		**111,194**	**20,102**	**131,296**
Capital expenditures		2,319	2,370	4,689

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

There were no customers in 2022 that accounted for over 10% of the group's total revenue recognised under the stage of completion method. In 2021, revenue from the Transport Administration of €38,810 thousand accounted for over 10% of the group's revenue. 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 2022 amounted to €11,459 thousand and €2,395 thousand, respectively (2021: €3,097 thousand and €562 thousand, respectively).

The group's construction contract revenue for 2022 amounted to €305,307 thousand (2021: €280,073 thousand).

Reconciliation of segment revenues

€'000	2022	2021
Total revenues for reportable segments	323,433	288,270
Elimination of inter-segment revenues	(800)	(85)
Reportable segments' unallocated revenue	227	349
Total consolidated revenue	**322,860**	**288,534**

Reconciliation of segment profit

€'000	2022	2021
Total profit for reportable segments	9,245	4,962
Reportable segments' unallocated loss	(750)	(941)
Consolidated gross profit	**8,495**	**4,021**
Unallocated expenses:		
Marketing and distribution expenses	(490)	(559)
Administrative expenses	(7,287)	(6,053)
Other operating income and expenses	1,587	(1,745)
Consolidated operating profit (loss)	**2,305**	**(4,336)**
Finance income	258	958
Finance costs	(3,740)	(1,320)
Consolidated loss before tax	**(1,177)**	**(4,698)**

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 2022	31 December 2021
Total assets of reportable segments	131,296	128,946
Inter-segment eliminations	(28)	0
Unallocated assets	6,066	6,125
Total consolidated assets	**137,334**	**135,071**

Geographical information

Revenue (€'000)	2022	2021
Estonia	308,982	272,051
Ukraine	1,202	4,263
Finland	6,684	8,293
Sweden	0	126
Latvia	2,574	3,801
Lithuania	3,418	0
Total revenue	**322,860**	**288,534**

Assets based on geographical location* (€'000)	2022	2021
Estonia	39,320	21,488
Ukraine	1,830	2,017
Total assets	**41,150**	**23,505**

* 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 the date of commencement of the projects (€'000)	31 December 2022	31 December 2021
Contract costs recognised using the stage of completion method	241,257	207,407
Estimated gross profit	10,100	7,715
Contract revenue recognised using the stage of completion method	251,357	215,121
Progress billings	245,776	208,721
Difference between total progress billings and revenue recognised using the stage of completion method	**(5,581)**	**(6,400)**
Of which due from customers (note 8)	9,181	10,579
Of which due to customers (note 19)	3,600	4,179

Significant changes in amounts due from and due to customers

€'000	Due from customers	Due to customers
Balance at 1 January 2021	**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**
Revenue recognised during the period which at the beginning of the period was recognised in the balance of due to customers	-	(4,116)
Receivables recognised during the period which at the beginning of the period were recognised in the balance of due from customers	(9,746)	-
Remaining difference between revenue recognised and progress billings	8,348	3,537
Balance at 31 December 2022	**9,181**	**3,600**

Retentions receivable under construction contracts amounted to €6,501 thousand at the reporting date (31 December 2021: €6,063 thousand) (note 8).

At the reporting date, the order book stood at €149,799 thousand of which 85% will realise in 2023 and 15% in 2024 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 party. 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	The group's interest		Total value of contract	
€'000	2022	2021	2022	2021
Logistics centre for Pakendikeskus AS	-	50%	-	5,335
Porto Franco commercial and business building, concrete works phase II	-	39%	-	21,240
Commercial buildings at Jahu 4/Suur-Patarei 13	-	50%	-	6,550
Vanessa wind farm	38%	38%	15,773	13,961
Porto Franco H4 construction works	50%	50%	9,326	7,652

NOTE 27. Revenue

2022

€'000	Buildings	Infrastructure	Total
Revenue from contracts with customers	**259,671**	**62,848**	**322,519**
Of which: general contracting services	241,882	49,279	291,161
subcontracting services	6,330	7,816	14,146
own development activities	11,459	0	11,459
road maintenance services	0	4,465	4,465
rental services	0	1,288	1,288
Inter-segment revenue	0	(800)	(800)
Other revenue	**914**	**0**	**914**
Of which: investment property	914	0	914
Total revenue	**260,585**	**62,048**	**322,633**

Revenue from contracts with customers	**259,671**	**62,848**	**322,519**
Of which: revenue from performance obligations satisfied at a point in time	11,459	0	11,459
revenue from performance obligations satisfied over time	248,212	62,848	311,060

2021

€'000			
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**

Revenue from contracts with customers	**216,070**	**72,200**	**288,270**
Of which: revenue from performance obligations satisfied at a point in time	3,097	0	3,097
revenue from performance obligations satisfied over time	212,973	72,200	285,173

NOTE 28. Cost of sales

€'000	2022	2021
Cost of materials, goods and services	287,791	259,320
Staff costs	23,609	22,019
Depreciation expense (note 13)	2,514	2,621
Other expenses	451	553
Total cost of sales	**314,365**	**284,513**

In 2021, the group had, on average, 658 employees (2021: 685). In addition, there were 21 people working under service contracts (i.e. contracts under the law of obligations; excluding self-employed people) and 17 members of legal persons' management or control bodies (2021: 23 and 17, respectively).

NOTE 29. Administrative expenses

€'000	2022	2021
Cost of materials, goods and services	2,534	1,959
Staff costs	3,574	2,973
Depreciation and amortisation expense (notes 13 and 14)	947	918
Other expenses	232	203
Total administrative expenses	**7,287**	**6,053**

NOTE 30. Other operating income and expenses

Other operating income

€'000	Note	2022	2021
Gain on sale of property, plant and equipment	13	458	280
Gain on sale of real estate		0	28
Other income		1,591	211
Total other operating income		**2,049**	**519**

Consistent with the restructuring plan approved by the creditors of Swencn AB the claims of Swencn AB's creditors were to be settled to the extent of 25%. As a result, the group recognised in 2022 other operating income of €1,560 thousand. See also the chapter *The group's operations in Estonia and foreign markets*.

Other operating expenses

€'000	Note	2022	2021
Loss on sale and write-off of property, plant and equipment		14	8
Net loss on recognition and reversal of impairment losses on receivables	33	319	2,144
Foreign exchange loss		3	0
Other expenses		126	112
Total other operating expenses		**462**	**2,264**

NOTE 31. Finance income and costs

Finance income

€'000	2022	2021
Interest income on loans provided	237	213
Foreign exchange gain	0	731
Other finance income	21	14
Total finance income	**258**	**958**

Interest income on loans provided for the reporting period includes interest income on loans provided to related parties of €218 thousand (2021: €213 thousand) (note 36).

Finance costs

€'000	2022	2021
Interest expense	929	982
Foreign exchange loss	1,528	0
Other finance costs	1,283	338
Total finance costs	**3,740**	**1,320**

Foreign exchange loss for 2022 of €1,528 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 2021, the group earned an exchange gain of €731 thousand. Other finance costs for 2022 include the write-down of the loan provided to the Ukrainian associate V.I. Center TOV of €825 thousand.

NOTE 32. Income tax expense

€'000	2022	2021
Loss for the year	(1,441)	(5,506)
Income tax expense on dividends	(200)	(810)
Deferred tax liability	(64)	2
Loss before tax	**(1,177)**	**(4,698)**
Income tax using the tax rate of the parent company	(64)	(1)
Income tax on dividends distributed by Estonian group entities	(200)	(767)
Income tax in foreign jurisdictions	0	(40)
Total income tax expense	**(264)**	**(808)**

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 €325 thousand has been recognised in the statement of financial position as at 31 December 2022 (31 December 2021: €261 thousand). At 31 December 2022, the subsidiaries' and associates' temporary differences totalled €18,993 thousand (31 December 2021: €16,751 thousand). In 2022, the group's Estonian subsidiaries paid a net dividend of €1,635 thousand, which gave rise to income tax expense of €200 thousand (2021: €4,952 thousand and €767 thousand, respectively). The share of dividends paid to non-controlling interests was €793 thousand (2021: €1,236 thousand).

NOTE 33. Financial instruments and financial risk management

Credit risk

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

€'000	Note	2022	2021
Cash and cash equivalents	7	7,238	9,031
Trade receivables	8	31,882	31,160
Retentions receivable	8	6,501	6,063
Receivables from related parties	8	608	539
Loans to related parties	8	7,899	8,481
Other receivables	8	617	475
Due from customers for contract work	8	9,181	10,579
Total		**63,926**	**66,328**

Receivables from third parties are unsecured, except for a loan with a carrying value of €7,899 thousand (31 December 2021: €8,481 thousand) provided to V.I. Center TOV, which is secured with the property belonging to the associate (note 8). According to the group's assessment, the credit risk of receivables not past due and receivables past due but not written down is low because the credit loss rate of the items is very 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 A2 and Coop Pank AS has Moody's credit rating Baa1.

Financial assets by geographical origin at the reporting date

€'000	2022	2021
Estonia	53,176	54,466
Ukraine	8,271	9,415
Sweden	516	490
Finland	1,963	1,957
Total	**63,926**	**66,328**

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

€'000	31 December 2022 Trade receivables	31 December 2022 Impairment allowance	31 December 2021 Trade receivables	31 December 2021 Impairment allowance
Not past due	26,979	0	27,019	0
0–30 days past due	2,065	0	1,805	0
31–180 days past due	996	0	377	0
Over 180 days past due*	1,945	(103)	2,505	(546)
Total	**31,985**	**(103)**	**31,706**	**(546)**

* 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	2022	2021
Impairment allowance at 1 January	(546)	(153)
Impairment losses recognised and reversed during the year	(319)	(2,144)
Items written off as uncollectible during the year	762	1,751
Impairment allowance at 31 December	**(103)**	**(546)**

In 2022, recognition of impairment losses on receivables and recovery of previously impaired items gave rise to a net loss of €319 thousand (2021: €2,144 thousand) (note 30).

During the year, receivables of €762 thousand that had been written down in earlier periods were written off as uncollectible (2021: €1,751 thousand).

Liquidity risk

Payments to be made to settle financial liabilities (incl. interest) under contracts in force at the reporting date

€'000 — 31 December 2022

Financial liability*	Carrying amount	Contractual cash flows	Up to 6 months	6-12 months	1-2 years	More than 3 years
Overdrafts (note 15)	11,472	11,847	6,334	5,513	0	0
Bank and other loans (note 15)	2,625	2,765	2,305	460	0	0
Lease liabilities (note 16)	9,407	10,177	1,716	1,718	4,569	2,174
Trade payables (note 17)	67,913	67,913	64,306	838	2,769	0
Other payables (note 18)	8,324	8,324	8,324	0	0	0
Total	**99,741**	**101,026**	**82,985**	**8,529**	**7,338**	**2,174**

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

€'000 — 31 December 2021

Financial liability*	Carrying amount	Contractual cash flows	Up to 6 months	6-12 months	1-2 years	More than 3 years
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.

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

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

- an overdraft facility of €188 thousand with a fixed interest rate of 4.0% per year;
- an overdraft facility of €160 thousand with a fixed interest rate of 6.5% per year;
- an overdraft facility of €198 thousand with a fixed interest rate of 5.0% per year.

Financial liabilities by geographical origin at the reporting date

€'000	2022	2021
Estonia	98,402	88,843
Ukraine	281	370
Sweden	50	2,966
Lithuania	0	1
Finland	1,009	475
Total	**99,742**	**92,655**

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 €40,664 thousand (2021: €45,605 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. In 2022 and in 2021 no bank guarantees issued on behalf of the group were called upon due to breach of obligations arising from construction activities.

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 2022
'000	€	SEK	UAH
Cash and cash equivalents	7,192	343	561
Current receivables	53,638	436	44,223
Non-current receivables	8,604	0	0
Total	**69,434**	**779**	**44,784**
Current liabilities	97,148	5,390	51,146
Non-current liabilities	11,128	0	0
Total	**108,276**	**5,390**	**51,146**
Net exposure	**(38,842)**	**(4,611)**	**(6,362)**

			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)**

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

	Date	Swedish krona (SEK)	Ukrainian hryvnia (UAH)
€1	31 December 2022	11.1218	38.9510
€1	31 December 2021	10.2503	30.9226

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 2022	31 December 2021
Strengthening of euro by 10%	53	220
Weakening of euro by 10%	(64)	(268)

Interest rate risk

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

€'000	2022	2021
Financial instruments with a fixed interest rate		
Financial assets (loans provided to related parties and legal persons) (note 8)	7,899	8,481
Financial liabilities (note 15)	11,472	10,248
Net exposure	**(3,573)**	**(1,767)**
Financial instruments with a floating interest rate		
Financial assets (cash and cash equivalents) (note 7)	7,238	9,031
Financial liabilities (incl. lease liabilities) (notes 15 and 16)	12,032	13,446
Net exposure	**(4,794)**	**(4,415)**

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

	31 December 2022	31 December 2021
3 month EURIBOR	2.184%	(0.572)%
6 month EURIBOR	2.726%	(0.546)%

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 €196 thousand (2021: €228 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		2022		2021
	Carrying amount	Fair value	Carrying amount	Fair value
Cash and cash equivalents (note 7)	7,238	7,238	9,031	9,031
Trade receivables (note 8)	31,882	31,882	31,160	31,160
Retentions receivable (note 8)	6,501	6,501	6,063	6,063
Due from customers (note 8)	9,181	9,181	10,579	10,579
Receivables from related parties (notes 8 and 36)	608	608	539	539
Loans to related parties (notes 8 and 36)	7,899	7,899	8,481	8,481
Other receivables (note 8)	617	617	475	475
Overdrafts (note 15)	(11,472)	(11,472)	(10,248)	(10,248)
Bank and other loans (note 15)	(2,625)	(2,625)	(4,147)	(4,147)
Lease liabilities (notes 15 and 16)	(9,407)	(9,407)	(9,299)	(9,299)
Trade payables (note 17)	(67,644)	(67,644)	(61,330)	(61,330)
Payables to related parties (notes 17 and 36)	(269)	(269)	(172)	(172)
Other payables (note 18)	(4,717)	(4,717)	(4,751)	(4,751)

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 the property held by the associate. Therefore, the fair value of loans to related parties is based on the fair value of property (if it is lower than the carrying amount of the loans). 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	31 December 2021
Retained earnings of the group	2,691	6,341
Maximum possible income tax liability	(484)	(1,015)
Maximum amount that could be distributed as the net dividend	2,207	5,326

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 2023 if all of the retained earnings as at the reporting date were distributed has been calculated by applying the 14% tax rate to the portion equal to one third of the profit distributed and taxed in 2020 and 2021.

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 €40,664 thousand (31 December 2021: €45,605 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 2022, 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 €619 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 €53,579 thousand (31 December 2021: €50,979 thousand).

Movable property pledged under commercial pledges does not include cash and cash equivalents, 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 €18,316 thousand (31 December 2021: €19,317 thousand). The parent and the subsidiaries have mortgaged assets of the following classes:

Line item in the statement of financial position (€'000)	31 December 2022	31 December 2021
Inventories	6,336	9,912
Investment property	3,214	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	**18,316**	**19,317**

* 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 2022 and 31 December 2021 were secured with a pledge of the shares in Tariston AS (100%) and with a pledge of 847 thousand own (treasury) shares of Nordecon AS.

Other collateral

At 31 December 2022, the group had secured its financial liabilities with security deposits of €425 thousand and a pledge of its extraction permits with a value of €5,143 thousand. The corresponding figures as at 31 December 2021 were €250 thousand and €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		2022		2021
Counterparty	Purchases	Sales	Purchases	Sales
AS Nordic Contractors	885	0	509	0
Companies of AS Nordic Contractors group	247	23	231	8
Companies related to owners of AS Nordic Contractors	851	0	740	0
Companies related to members of the council	5	639	89	781
Total	**1,988**	**662**	**1,569**	**789**

€'000 Nature of transaction	Purchases	2022 Sales	Purchases	2021 Sales
Construction services	0	639	0	781
Transactions with goods	851	0	740	0
Lease and other services	626	8	546	8
Other transactions	511	23	283	0
Total	**1,988**	**662**	**1,569**	**789**

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

	31 December 2022		31 December 2021	
€'000	Receivables	Liabilities	Receivables	Liabilities
AS Nordic Contractors	0	16	0	16
Companies related to owners of AS Nordic Contractors	329	18	130	135
Companies of AS Nordic Contractors group	278	234	406	21
Associates – receivables and liabilities	1	1	3	0
Associates – loans and interest	7,899	0	8,481	0
Total	**8,507**	**269**	**9,020**	**172**

Receivables from and liabilities to associates result from ordinary business operations. The receivables and liabilities are settled on time.

Loan principal and accrued interest receivable from related parties (note 8):

				31 December 2022		31 December 2021	
€'000	Related party	Interest rate	Currency	Loan	Of which interest	Loan	Of which interest
V.I. Center TOV	Associate	3.0%	€	7,899	711	8,481	1,318
Total				**7,899**	**711**	**8,481**	**1,318**
Of which non-current portion				7,899	711	8,481	1,318

During the period, the group recognised interest income on the loan to the associate of €218 thousand (2021: €213 thousand) (note 31). The loan is secured with a mortgage of €7,000 thousand (note 8).

Remuneration of the council and the board

The service fees of the members of the council of Nordecon AS for 2022 amounted to €150 thousand and associated social security charges totalled €50 thousand (2021: €150 thousand and €50 thousand, respectively).

The service fees of the members of the board of Nordecon AS amounted to €417 thousand and associated social security charges totalled €138 thousand (2021: €369 thousand and €122 thousand, respectively).

Information about share options granted to the members of the board is disclosed in note 23.

NOTE 37. 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	2022	2021
ASSETS		
Current assets		
Cash and cash equivalents	1,518	2,436
Trade and other receivables	25,601	25,924
Prepayments	4,648	2,508
Inventories	5,887	9,515
Total current assets	**37,654**	**40,383**
Non-current assets		
Investments in subsidiaries	7,485	7,345
Investment property	6,463	3,663
Trade and other receivables	24,809	24,072
Property, plant and equipment	3,951	4,648
Intangible assets	12,455	12,373
Total non-current assets	**55,163**	**52,101**
TOTAL ASSETS	**92,817**	**92,484**
LIABILITIES		
Current liabilities		
Borrowings	12,991	12,337
Trade payables	38,307	33,702
Taxes payable	1,527	795
Other payables	11,369	6,825
Deferred income	2,028	6,778
Provisions	295	323
Total current liabilities	**66,517**	**60,760**
Non-current liabilities		
Borrowings	1,740	3,422
Other payables	2,130	1,756
Provisions	291	410
Total non-current liabilities	**4,161**	**5,588**
TOTAL LIABILITIES	**70,678**	**66,348**
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	4,677	8,674
TOTAL EQUITY	**22,139**	**26,136**
TOTAL LIABILITIES AND EQUITY	**92,817**	**92,484**

* 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	2022	2021
Revenue	158,006	137,981
Cost of sales	(157,579)	(137,200)
Gross profit	**427**	**781**
Marketing and distribution expenses	(249)	(350)
Administrative expenses	(3,610)	(3,144)
Other operating income	250	131
Other operating expenses	(307)	(108)
Operating loss	**(3,489)**	**(2,690)**
Finance income	1,486	4,317)
Finance costs	(1,994)	(1,078)
Net finance (costs) income	**(508)**	**3,239**
(Loss) profit before income tax	**(3,997)**	**549**
Income tax expense	**0**	**3**
(Loss) profit for the year	**(3,997)**	**546**
Total comprehensive (expense) income for the year	**(3,997)**	**546**

Statement of cash flows

€'000	2022	2021
Cash flows from operating activities		
Cash receipts from customers[5]	183,370	163,962
Cash paid to suppliers[6]	(169,536)	(147,646)
Cash paid to and for employees	(9,690)	(9,297)
VAT paid	(3,344)	(3,151)
Net cash from operating activities	**800**	**3,868**
Cash flows from investing activities		
Paid on acquisition of non-current assets	(122)	(60)
Proceeds from sale of non-current assets	325	195
Capital contributions to subsidiaries	(140)	0
Loans provided	(1,231)	(2,036)
Interest received	6	60
Dividends received	1,148	3,716
Other investments	32	0
Net cash from investing activities	**18**	**1,875**
Cash flows from financing activities		
Proceeds from loans received	880	389
Repayments of loans received	(1,222)	(1,530)
Payments of lease principal	(728)	(918)
Interest paid	(666)	(766)
Dividends paid	0	(3,778)
Net cash used in financing activities	**(1,736)**	**(6,603)**
Net cash flow	**(918)**	**(860)**
Cash and cash equivalents at beginning of year	2,436	3,296
Decrease in cash and cash equivalents	(918)	(860)
Cash and cash equivalents at end of year	**1,518**	**2,436**

[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 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	-		-	-	-	10,089
Adjusted unconsolidated equity at 31 December 2021	-		-	-	-	***28,880***
Balance at 31 December 2021	**14,378**	**(660)**	**1,204**	**2,540**	**8,674**	**26,136**
Loss for the year	0	0	0	0	(3,997)	(3,997)
Balance at 31 December 2021	**14,378**	**(660)**	**1,204**	**2,540**	**4,677**	**22,139**
Carrying amount of interests under control and significant influence	-		-	-	-	(7,485)
Value of interests under control and significant influence under the equity method	-		-	-	-	10,376
Adjusted unconsolidated equity at 31 December 2022	-		-	-	-	***25,030***

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 2022 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 2023) 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	*signed digitally*	20 April 2023
Priit Luman	Member of the Board	*signed digitally*	20 April 2023
Maret Tambek	Member of the Board	*signed digitally*	20 April 2023

Independent auditors' report

To the Shareholders of Nordecon AS

Report on the Audit of the Consolidated Financial Statements

Qualified 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 2022, 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, except for the matter described in the *Basis for Qualified Opinion* section of our report, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the group as at 31 December 2022 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 Qualified Opinion

The group's consolidated statement of financial position as at 31 December 2022 includes a loan provided to the group's Ukrainian associate V.I. Center TOV with the carrying amount of €7,836 thousand. The loan was provided for the acquisition and development of properties (plots of land) near Kiev. The group and the co-owners of V.I. Center TOV have created mortgages on the properties owned by the investee in order to safeguard their investments and secure their loans. The ability of the Ukrainian associate to repay the loan depends on the realisation of the development projects planned on the properties and, therefore, the recoverable amount of the loan also depends on the fair value of the properties. Russia's military attack on Ukraine, which began on 24 February 2022, had made Ukraine's political and economic situation significantly more complicated and, consequently, there are circumstances indicating impairment of the loan. Due to the uncertainty of the situation, the group's management was unable to measure the fair value of the properties that secure the loan. Accordingly, we were unable to perform audit procedures which would allow us to obtain sufficient appropriate audit evidence about the fair value of the properties and thus the value of the loan. As a result of the above, we are unable to assess whether the recoverable amount of the loan as at 31 December 2022 is at least equal to its carrying amount, and whether and to what extent the group's assets and equity as at 31 December 2022 and financial result for the year then ended may be overstated due to the impairment the loan.

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 qualified 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. In addition to the matter described in the Basis for Qualified Opinion section, we have determined that the matters described below are the key audit matters which must be disclosed in our report.

<table>
<tr><td colspan="2">Valuation of the recoverable amount of goodwill</td></tr>
<tr><td colspan="2">Refer to Notes 2 and 14 of the consolidated financial statements.</td></tr>
<tr><td>The key audit matter</td><td>How the matter was addressed in our audit</td></tr>
<tr><td>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 fore cash-generating units (CGUs). Relevant financial reporting standards require that goodwill is tested, at least annually, for impairment.

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.

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.

Due to the above circumstances, we assessed the valuation of the recoverable amount of goodwill to be a key audit matter.</td><td>In this area, we conducted, among others, the following audit procedures:
• 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 budgeting process by comparing recent years’ actual revenue and gross margin to the budgeted amounts.
• 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.</td></tr>
</table>

Other Information

Management is responsible for the other information. The other information comprises Nordecon group at a glance, key figures for 2022, 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 135^3 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. As described in the Basis for Qualified Opinion section, we were unable to obtain sufficient appropriate audit evidence to assess whether the loan given to Ukrainian associate may be impaired. Therefore, we are unable to conclude whether or not the other information is materially misstated with respect to this matter. Except for this matter, 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 135^3 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 48510000D8HSLK854I81-2022-12-31-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 2022;
- 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 48510000D8HSLK854I81-2022-12-31-en.zip for the year ended 31 December 2022 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 year ended 31 December 2022. Our total uninterrupted period of engagement is 17 years, covering the periods ending 31 December 2006 to 31 December 2022.

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 2023

/signed digitally/	*/signed digitally/*
Liina Randmann	***Ele Pajusaar***
Certified Public Accountant, *Licence No 661*	*Certified Public Accountant,* *Licence No 652*

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Profit allocation proposal

Distributable profit of Nordecon AS

	€'000
Retained earnings of prior periods	6,341
Loss for 2022	(3,650)
Total distributable profit (retained earnings) at 31 December 2022	**2,691**

The board proposes that no allocations be made.

Gerd Müller	Chairman of the Board	*signed digitally*	20 April 2023
Priit Luman	Member of the Board	*signed digitally*	20 April 2023
Maret Tambek	Member of the Board	*signed digitally*	20 April 2023

GRI content index

The group has prepared its annual report in accordance with the requirements of internationally recognised and widely used GRI (Global Reporting Initiative) sustainability reporting standards. The group has applied the new requirements of GRI Standards 2021 which became effective from 2022. 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 Betoon 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 outline common features, similar policies and examples of best practice.

Nordecon AS is a company listed on the Nasdaq Tallinn Stock exchange and the Nordecon group operates in Estonia, Finland, Ukraine and Sweden through locally registered entities and in other markets on a project basis.

The financial reporting and sustainability reporting period is the same (1 January 2022 – 31 December 2022) and the report is disclosed once a year.

The contact person for questions regarding the report is Andri Hõbemägi, andri.hobemagi@nordiccontractors.com.

The report was disclosed on 21 April 2023.

Statement of use	Nordecon AS has reported in accordance with the GRI Standards for the period 1 January 2022 – 31 December 2022.
GRI 1 used	GRI 1: Foundation 2021
Applicable GRI Sector Standard(s)	None apply

GRI Standard	Disclosure	Location (page number)	Omission: Requirement(s) omitted	Omission: Reason	Omission: Explanation
General disclosures					
GRI 2: General Disclosures 2021	2-1 Organizational details	1; 126			
	2-2 Entities included in the organization's sustainability reporting	126			
	2-3 Reporting period, frequency and contact point	126			
	2-4 Restatements of information	(No restatements)			
	2-5 External assurance	27			
	2-6 Activities, value chain and other business relationships	14-19			
	Additional information: no significant changes in activities, value chain and other business relationships				
	2-7 Employees	32	Data about non-guaranteed hours employees	Not applicable	None or insignificant number
	Additional information: no significant fluctuations in employee numbers during the reporting period.				
	2-8 Workers who are not employees	32	Type of work performed	Not applicable	Insignificant number, not tracked
	Additional information: no significant fluctuations in numbers during the reporting period and period average data is shown.				

	2-9 Governance structure and composition	40-42; 45-47; 56			
	2-10 Nomination and selection of the highest governance body	47-48			
	Additional information: highest governance selection does not include considering competencies relevant to the impacts of the organisation.				
	2-11 Chair of the highest governance body	40-43			
	Additional information: chair of the highest governance body is not a senior executive in the organisation				
	2-12 Role of the highest governance body in overseeing the management of impacts	25-26			
	2-13 Delegation of responsibility for managing impacts	25-26			
	2-14 Role of the highest governance body in sustainability reporting	26-27			
	2-15 Conflicts of interest	46			
	2-16 Communication of critical concerns	26; 48	b	Information unavailable/incomplete	Not tracked separately
	2-17 Collective knowledge of the highest governance body	26			
	2-18 Evaluation of the performance of the highest governance body	27			
	2-19 Remuneration policies	26; 55-56			
	2-20 Process to determine remuneration	47; 55-56			
	Additional information: Remuneration consultants are not involved in determining remuneration				
	2-21 Annual total compensation ratio		a; b; c	Information unavailable/incomplete	Not tracked separately
	2-22 Statement on sustainable development strategy	6-7			
	2-23 Policy commitments	26			
	2-24 Embedding policy commitments	26			
	2-25 Processes to remediate negative impacts	27; 43			
	Additional information: Grievance mechanisms effectiveness has not been evaluated including improvements regarding stakeholder feedback				
	2-26 Mechanisms for seeking advice and raising concerns	27			
	2-27 Compliance with laws and regulations	27-28; 39; 43			
	Additional information: no significant fines (over €10 thousand) have been paid during reported and previous period				
	2-28 Membership associations	36-37			

	2-29 Approach to stakeholder engagement	25			
	2-30 Collective bargaining agreements	32			
Material topics					
GRI 3: Material Topics 2021	3-1 Process to determine material topics	25			
	3-2 List of material topics	25			
Quality and customer experience					
GRI 3: Material Topics 2021	3-3 Management of material topics	27-28			
non-GRI	Customer satisfaction rate	28			
Leadership ability					
GRI 3: Material Topics 2021	3-3 Management of material topics	33			
non-GRI	Management trainings	33			
Innovation					
GRI 3: Material Topics 2021	3-3 Management of material topics	29-30			
non-GRI	BIM use in projects	30			
Environmental impact of buildings constructed					
GRI 3: Material Topics 2021	3-3 Management of material topics	37-38			
non-GRI	Constructed buildings that have high energy labels and/or higher environmental protection standards	39			
Local communities					
GRI 3: Material Topics 2021	3-3 Management of material topics	35			
non-GRI	Complaints from residents of the vicinity of construction sites	35-36			
Economic performance					
GRI 3: Material Topics 2021	3-3 Management	15-23			

	of material topics				
GRI 201: Economic performance 2016	201-1 Direct economic value generated and distributed	103			
Anti-corruption					
GRI 3: Material Topics 2021	3-3 Management of material topics	13; 43			
GRI 205: Anti-corruption 2016	205-3 Confirmed incidents of corruption and actions taken	43			
Energy					
GRI 3: Material Topics 2021	3-3 Management of material topics	37-38; 40			Only asphalt concrete plant energy consumption is tracked (most material)
GRI 302: Energy 2016	302-1 Energy consumption within the organization	39	d; e	Information unavailable/ incomplete	
Biodiversity					
GRI 3: Material Topics 2021	3-3 Management of material topics	37-40			Same locations which are mentioned more thoroughly in 2021. report
GRI 304: Biodiversity 2016	304-1 Operational sites owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas	39	a	Information unavailable/ incomplete	
Emissions					
GRI 3: Material Topics 2021	3-3 Management of material topics	37-38; 40			Only asphalt concrete plant direct emissions are tracked (most material)
GRI 305: Emissions 2016	305-1 Direct (Scope 1) GHG emissions	39	c; e; f; g	Information unavailable/ incomplete	
	305-4 GHG emissions intensity	39			
Waste					
GRI 3: Material Topics 2021	3-3 Management of material topics	37-39			
GRI 306: Waste 2020	306-3 Waste generated	39	a; b	Information unavailable/ incomplete	Waste generated is not tracked
Supplier environmental assessment					

GRI 3: Material Topics 2021	3-3 Management of material topics	28-29			All subcontractors are regularly assessed
GRI 308: Supplier Environmental Assessment 2016	308-2 Negative environmental impacts in the supply chain and actions taken	29	a	Information unavailable/ incomplete	
Employment					
GRI 3: Material Topics 2021	3-3 Management of material topics	30-33			
GRI 401: Employment 2016	401-1 New employee hires and employee turnover	32	distribution by region	Not applicable	insignificant in other countries beside Estonia (total shown)
non-GRI	Employee satisfaction and feedback	33			
	Number of interns	31			
Occupational health and safety					
GRI 3: Material Topics 2021	3-3 Management of material topics	26; 28-29; 33-34			
GRI 403: Occupational Health and Safety 2018	403-1 Occupational health and safety management system				
	403-2 Hazard identification, risk assessment, and incident investigation				
	403-3 Occupational health services				
	403-4 Worker participation, consultation, and communication on occupational health and safety				
	403-5 Worker training on occupational health and safety				
	403-6 Promotion of worker health				
	403-7 Prevention and mitigation of occupational health and				

	safety impacts directly linked by business relationships				
	403-9 Work-related injuries	34-35	b(v); c; d	Information unavailable/ incomplete	Hours worked by subcontractors is not tracked.
Training and education					
GRI 3: Material Topics 2021	3-3 Management of material topics	33			
GRI 404: Training and Education 2016	404-1 Average hours of training per year per employee	33			
Diversity and equal opportunity					
GRI 3: Material Topics 2021	3-3 Management of material topics	30; 53			
GRI 405: Diversity and Equal Opportunity 2016	405-1 Diversity of governance bodies and employees	31	a (ii)	Not applicable	Insignificant
Non-discrimination					
GRI 3: Material Topics 2021	3-3 Management of material topics	30; 53			
GRI 406: Non-discrimination 2016	406-1 Incidents of discrimination and corrective actions taken	31			
Supplier social assessment					
GRI 3: Material Topics 2021	3-3 Management of material topics	28-29			All subcontractors are regularly assessed
GRI 414: Supplier Social Assessment 2016	414-2 Negative social impacts in the supply chain and actions taken	29	a	Information unavailable/ incomplete	
Public policy					
GRI 3: Material Topics 2021	3-3 Management of material topics	43			
GRI 415: Public Policy 2016	415-1 Political contributions	43			
Customer health and safety					
GRI 3: Material Topics 2021	3-3 Management of material topics	27-28			
GRI 416: Customer Health and Safety 2016	416-2 Incidents of non-compliance concerning the health and	28			

	safety impacts of products and services				