NORDECON

Group annual report 2019

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Business name	Nordecon AS
Registry number	10099962
Address	Toompuiestee 35, 10133 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 2019 – 31 December 2019
Council	Toomas Luman (chairman of the council), Andri Hõbemägi, Vello Kahro, Sandor Liive, Meelis Milder
Board	Gerd Müller (chairman of the board), Priit Luman, Maret Tambek, Ando Voogma
Auditor	KPMG Baltics OÜ

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Nordecon Group at a glance

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

For years, our business strategy has been underpinned by a consistent focus on general contracting and project management and a policy of maintaining a reasonable balance between building and infrastructure construction. Our core business is supported by road maintenance, concrete works and other services that provide added value, improve our operating efficiency and help manage risks.

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

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

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

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

VISION

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

MISSION

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

SHARED VALUES

Professionalism

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

Reliability

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

Openness

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

Employees

We support employee development through needs-based training and career opportunities consistent with their experience. We value our people and provide them with a modern work environment that encourages creativity and a motivation system that fosters initiative.

Key figures for 2019

€234m
Revenue
(2018: €223m)

4.7%
Revenue growth, year on year
(2018: -3%)

€227m
Order book at the year-end
(2018: €100m)

€306m
Value of new contracts signed
(2018: €134m)

130
Projects delivered to customers
(2018: 122)

687
Employees
(2018: 687)

19/0
Accidents at work/Fatal accidents at work (incl. subcontractors)
(2018: 17/0)

0
Environmental pollution, discrimination and corruption incidents
(2018: 0)

€0.3m
Donations to community projects and charities
(2018: €0.3m)

Awards and public recognition

- Nordecon AS achieved a high third place in the most competitive construction companies survey conducted by the Estonian Chamber of Commerce and Industry.
- Nordecon AS is an attractive employer for technology and engineering students. In an employer reputation survey conducted by Instar EBC, technology students rated the company as the seventh and engineering students as the second most attractive employer.
- The Estonian Concrete Association awarded the main building of the Estonian Academy of Security Sciences, completed by Nordecon AS in 2019, the title of Estonian Concrete Building of the Year.
- The Estonian Road Administration presented Nordecon AS with the Best Road Builder 2018 award.

Letter from chairman of the council

Nordecon celebrated its 30th anniversary in 2019. Having been one of the two young construction engineers who began to lead and build this construction company in 1989, I am pleased to report that the company, which started out with a just few employees and a single office room with ten chairs and a table has grown into a leading Estonian construction group, which is represented in all significant segments of the construction market. Over the years, we have contributed to Estonia’s development mainly by building important infrastructure assets and outstanding public and business buildings and by being a responsible employer. As we have grown, we have also expanded our social contribution. We are proud to be a corporate citizen that gives back to society by being a responsible taxpayer, supports culture, sports and education within its means, participates in professional and industry organizations and speaks up in matters affecting Estonia’s economic environment. Nordecon Group has always taken all these roles seriously and will continue to do so.

During the 30 years we have understandably had to operate in very different economic environments – every decade of growth has been followed by less prosperous times, which have been caused by different factors of different origin. As I am writing these lines, I do not know how the year 2020 will turn out from the economic perspective. I can assure you, however, that regardless of the circumstances Nordecon will always remain committed to its mission of delivering the construction service within the agreed timeframe, consistent with generally accepted quality standards and with only those resources, which it originally planned to use. High-quality planning and efficient performance are universal operating principles in any conditions. In recent years when the market has been rising, Nordecon has been implementing these principles at an accelerated pace: the year 2019 ended with the past ten years’ largest revenue and second-largest profit. Still, today it is important to emphasise that internal streamlining aimed at improving operating efficiency is continuous work and will also be a priority in 2020, which is likely to be full of unexpected developments.

Operating efficiency cannot be improved by enhancing internal work flows only. It is also necessary to implement relevant digital solutions. According to different surveys conducted in the world, the construction sector is somewhat notorious for its sluggish transition into the modern digital world. Yet IT innovation allows a general contractor not only to improve its own efficiency but also to pass on the benefits to all other parties involved in the construction process. From planning and conducting the procurement and purchasing process, arranging design and organising the work of subcontractors to delivering the performance documentation and management solutions to the customer – all of it can be done digitally. The Group has been using integrated information systems for around 20 years already and we continue to expand their use and implement new solutions. Nordecon seeks to be not only a modern construction group but truly modern in every respect.

Toomas Luman

Chairman of the Council

Group chief executive's letter

The year 2019 was successful for Nordecon in many respects. We achieved our profitability improvement targets, secured a record number of new construction contracts, increased the share of revenue earned outside Estonia and took vigorous steps towards digitalising our operations. All this was underpinned by excellent teamwork, which evolved greatly during the year, and our people's strong professional expertise and skills.

As anticipated, after two years of rapid expansion the growth of the Estonian construction market became more subdued last year. The building construction segment was supported by housing construction and work procured by the public sector: mostly different buildings for educational institutions and the central and local government. The infrastructure segment suffered a decline and in road construction, which in recent years has accounted for over 90% of the infrastructure segment, around a fourth of available resources remained unutilised. Still, the sector's employment rate remains high and competition continues to be fierce. Rapidly rising wages and materials prices as well as the growing technological complexity of new projects have increased the gap between customers' price expectations and the actual cost of construction. Most new projects need to be redesigned to mitigate the rise in construction costs. This, in turn, holds back wider implementation of additional energy efficient and green solutions because these would be too costly for customers.

Low productivity has been a challenge for the construction sector for a long time. Recent years' rapid growth in work performed has further increased the cost pressure. There is a scarcity of both quality and quantity. The shortage of skilled labour has been mitigated by hiring foreign labour without whom the Estonian construction market would not be able to operate in the current volume. The shortage of qualified construction engineers, however, is much more difficult to overcome. The attractiveness of the sector depends largely on its ability to modernise and improve productivity by increasing digitalisation and reducing labour intensity. Nordecon has set itself a clear goal of being the leader of innovation in the construction sector and the first implementer of innovative solutions. We believe that by doing that we can help the construction sector overcome its challenges and improve its reputation. We also hope that this will make a construction engineer's career and the opportunities offered by the industry more attractive for young talent.

In 2019, Nordecon Group's revenue grew by 4.5%, gross profit improved and operating profit remained stable compared to 2018. Our target is to achieve and maintain a 3% operating margin, which assumes increasing the gross margin of our construction operations. We are on the right track in improving profitability. During the year, we secured a record-large volume of new construction contracts: 306 million euros, which will be performed in 2020 and 2021. We continuously increase productivity by automating our processes and implementing digital solutions in our daily work. By the end of 2019, all planning, design and construction activities in building construction projects performed by the parent company were managed using Business Information Modelling software – BIM. BIM has become a daily tool in the design and construction of new, large and complex buildings. Now it is time to take a digital leap on the construction sites. We have created preconditions for this and the parent company has started using a comprehensive digital construction environment in the first projects in order to save time and further improve quality.

One of the cornerstones of Nordecon's strategy is a broad operating base, which means being represented in most segments of the Estonian construction market to ensure long-term and balanced growth. We have also set ourselves the goal that by 2022 we should earn 20% of our revenue in foreign markets with a particular focus on growing in Sweden and Finland. In 2019, international business accounted for 11% of our total revenue, which is the highest indicator for the past decade. The strongest contributor to this was NOBE Rakennus in the Finnish market but we also expanded our operations in the Swedish market where we supplemented general contracting in housing construction with the construction of a wind farm. The greatest challenge in foreign markets is achieving sustainability of operations.

Looking into 2020, we see that our portfolio includes major long-term contracts. This should allow us to forecast business growth but the worldwide outbreak of the coronavirus disease COVID-19 is going to have an adverse impact on the economy, which will put pressure on targets set. The drastic change in the living and working conditions of the entire society will affect the completion of construction projects in progress and cast doubt on the launch of new developments that have been planned. The state can support the Estonian construction sector by continuing to procure the work which has been planned and increasing investment in infrastructure assets and buildings for educational institutions and government agencies to counter the projected economic downturn and mitigate the decline in volumes.

Nordecon AS celebrated its 30th business anniversary in 2019. We are a company with long-standing traditions and long-term goals, which provides employment and a sense of security for hundreds of people. Seeing a common goal and each of us understanding our role in achieving it are the values we aspire for. In the current state of emergency we must continue to be flexible and united.

I thank all our employees for their dedicated contribution to the development of the Group, all our partners for working with us to create an integrated and better living environment, and all our shareholders for their trust and investment in Nordecon.

Gerd Müller

Chairman of the Board

Directors' report

Strategic agenda for 2019-2022

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

Business lines and markets

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

Activities for implementing the strategy

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

Financial targets

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

Social responsibility

Responsibility begins from the decisions of each individual. Already at the level of engineering ethics the people of Nordecon Group strive to come up with the best possible plan and execution to contribute to delivering more effective, efficient and sustainable solutions.

We acknowledge that our society's expectations regarding responsible management, the environment and climate action are growing. People expect that the activities of large companies should have a clearly positive impact on society.

As a responsible corporate citizen, Nordecon Group observes all mandatory requirements: from laws and regulations to honest contractual relations. However, being a public company, we feel that we must be one step ahead of requirements. This provides an opportunity to take a more active role in contributing to the development of the construction sector and setting a good example to other market players. We wish to promote change in the construction industry which would have a significant positive impact on society: environmental friendliness, efficiency, digitalisation and climate goals, as well as transparency, cooperation and openness. In the long run, these aspects will support the development of the whole sector. We are active members of the boards of the Estonian Association of Construction Entrepreneurs and the Estonian Digital Construction Cluster, which helps us maintain a leading role in the industry and gives a mandate to speak up on behalf of the sector.

We consider the social and environmental impacts of all our activities. Although for most non-corporate end-consumers this is not yet the determining sales argument, we must shape our activities for the future and mitigate current risks and possible weaknesses in environmental and work environment aspects as well as in corporate integrity and ethics. In the long term, better alignment with social trends will be good for the Group's longevity.

The Group's priority for the next few years is responsible management of its construction sites with a particular focus on occupational safety, effective work arrangement, stakeholder communication, sustainability and environmental awareness.

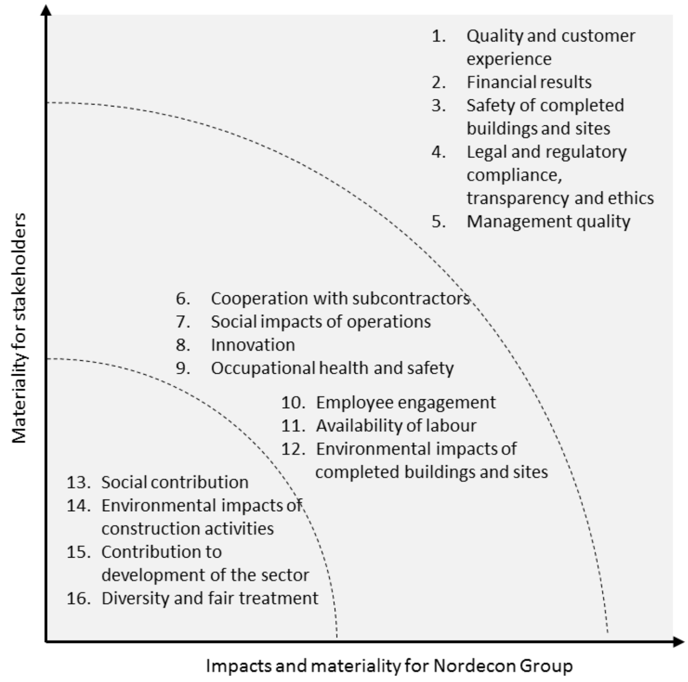
Significant areas of impact

In identifying the main aspects of the Group's impact on society, it is important to take into account the trends in the external environment and stakeholders' expectations of the Group's activity. We communicate regularly with our main stakeholder groups: the opinions, satisfaction and expectations of our shareholders, employees, customers, subcontractors and suppliers are critical for us. People who live near our construction sites and local authorities are involved in each project where necessary. We communicate with regulators and supervision agencies to ensure compliance with legal and regulatory requirements and other applicable standards. We work with schools, professional associations and non-governmental organizations.

We analysed how stakeholders' possible expectations of responsible business practices interlock with our understanding of the importance of various topics in 2016. To ensure a reliable high-quality outcome, the process was led by independent consultants. The findings raised were also relevant in 2019.

The outcome of the analysis is reflected in the Group's social responsibility materiality matrix, which divides different topics into three key categories, reflecting their significance for stakeholder groups, impacts and importance for the Group.

To a lesser or greater extent the focus areas are important for all Group entities. Therefore, the Group's annual report describes the period's management approach and developments in all focus areas.



The Group's role and broader responsibility in society is to:

- Make a positive contribution to the development of society by creating jobs, paying taxes, buying goods and services, delivering capital growth for investors and supporting social initiatives
- Operate openly and with integrity, ethically and transparently, which is a precondition for winning the trust of our business partners and managing large construction projects as well as an opportunity to improve business culture as a listed company
- Develop and maintain good customer relations, and collaborate with customers and business partners in an open and professional manner by offering our expertise and advice and seeking the best available solutions for construction projects
- Seek continually more efficient operational and engineering solutions through innovation and improved technological capabilities and leadership competencies
- Build safe high-quality buildings and infrastructure assets, while ensuring efficiency in an environment where prices are under pressure because the customer expects a good result quickly and at a favourable price even though solutions are becoming increasingly more sophisticated
- Build sustainably in order to preserve the natural environment and constantly improve our ability to carry out projects that meet the customers' highest expectations for environmentally friendly buildings
- Contribute to the creation of tastefully and completely designed buildings and public space by participating, where possible, in the development of the architectural solution and the selection of materials alongside the customer and designers
- Create a safe and motivating working environment for employees and encourage employee development in order to build qualified and skilled teams that have a common understanding of a smooth workflow
- Support engineering education to promote the engineering profession, alleviate the shortage of qualified and skilled labour and strengthen the Group's image as a well-managed employer that enables employees to work on ambitious projects

Market trends

In the year under review, a substantial share of the Group'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 2019

Compared to the three preceding years when annual growth was significant, in 2019 the construction market stabilised. According to preliminary data by Statistics Estonia, Estonian construction companies' total output in Estonia and abroad (combined, in current prices) was around 3.2 billion euros, 3% up on 2018. Building construction grew by 8% while infrastructure construction decreased by 6% year on year. Construction volumes in Estonia remained at the same level as in 2018. The local construction market was influenced the most by a decrease in infrastructure construction, whereas building construction grew slightly. The output of Estonian construction companies' foreign operations grew by more than a half, mainly through building construction. Foreign operations accounted for 8% of Estonian construction companies' total output for 2019 (2018: 6%).

The construction of new dwellings has been growing since 2012. In 2019, 7,014 new dwellings received a permit of use, a rise of 542 on 2018 (2018: 6,470 new dwellings). Most of them were in apartment buildings and located in and around Tallinn and in Tartu. The majority of the new dwellings had either two or four rooms and their average area was 94 square meters. The number of construction permits issued for dwellings increased compared to 2018. Permits were issued for the construction of 8,025 new dwellings (2018: 6,990). The number of non-residential premises that received a permit of use was 1,410 and their total usable area was 700,000 square metres in 2019, which is less than in 2018. Growth was the strongest in new industrial, warehouse and commercial space.

Outlooks of the Group's geographical markets

Estonia

Processes and developments characterising the Estonian construction market:

- In 2020, public investments that influence the construction market will not increase considerably compared to 2019. In terms of the market as a whole, investments made by the largest public-sector entities (the state-owned real estate company Riigi Kinnisvara AS, the National Road Administration, the Centre for Defence Investment, etc.) that will reach the signature of a construction contract in 2020 will not grow substantially. It is highly likely that the negative economic impacts of the coronavirus (COVID-19) pandemic will reduce the volume of orders placed by the private sector.
- Competition remains stiff across the construction market, intensifying in different segments in line with market developments. A continuously high number of bidders for construction contracts reflects this. It is clear that in an environment of continuously rising input prices, which has emerged in recent years, companies that can operate more efficiently and invest more in the pre-construction phase, particularly design, are more successful.
- In housing development, the success of a project depends on the developer's ability to control the input prices included in its business plan and thus set sales prices that are affordable for prospective buyers. A certain market saturation, credit institutions' more limited financing of buyers, and the outbreak of the coronavirus disease (COVID-19) are going to prolong real estate sales. In particular, this will affect more expensive housing.
- There is often a contrast between the stringent terms of public contracts, which impose an increasing number of obligations, strict sanctions, different financial guarantee commitments, etc. and the modest eligibility criteria. 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. However, they have also heightened the financial, completion delay and quality risks taken by customers during the contract performance and the subsequent warranty periods.
- The prices of construction inputs need not change in the near term but, depending on the nature of the input, the COVID-19 outbreak may affect them in different ways and to a different extent.

- The shortage of skilled labour (including project and site managers) continues to restrict companies' performance capacities, affecting different aspects of the construction process, including time and quality. A serious new issue is the shortage of foreign labour, which emerged when the borders were closed in connection with the outbreak of COVID-19 and which has restricted labour mobility. This may create a situation where previously planned work cannot be completed within the originally agreed timeframe.

Ukraine

In Ukraine, we are mainly involved in general contracting and project management in the segment of building construction. Political and economic instability continues to restrict the adoption of business decisions but construction activity in Kyiv and the surrounding area has increased in recent years. We expect that in 2020 our business volumes in Ukraine will remain at a level comparable to 2019. We assess the situation in the Ukrainian construction market regularly and are ready to restructure our operations as and when necessary. We continue to seek opportunities for exiting our two real estate projects, which have been put on hold, or signing a construction contract with a prospective new owner.

Finland

In Finland, our main focus has been on subcontracting in the concrete work segment but we are ready to provide the services of a general contractor where needed. The local concrete work market allows competing for projects where the customer wishes to source all concrete works from one reliable partner. However, our policy is to maintain a rational approach and avoid taking excessive risks. Finland's moderate economic growth has also had a certain positive effect on the construction sector. According to forecasts, the size of the Finnish construction sector will remain stable in 2020.

Sweden

In the Swedish market, we offer mainly the construction of residential and non-residential buildings in the central part of the country. In gaining experience in the new market, we have prioritised quality and adherence to deadlines over profitability. As regards our longer-term goal and the plan to build a viable and strong organization that could compete successfully in the Swedish market, we are positive about the developments so far and see potential for further growth and ensuring profitability in a large market when we have been able to stabilise our order book growth at the desired level. The decline in real estate prices that emerged in 2018 has reduced demand for housing construction. As a result, the starting dates of many projects are being postponed. Compared to the peak in 2017, housing construction volumes have dropped by around a third. The slowdown has affected the Stockholm area the most. Even though the worst downturn seems to have ceased, there are no signs of growth yet and housing construction volumes are expected to shrink further in 2020. Still, the Swedish construction market as a whole is supported by sustained growth in government investment and high demand for office space in large cities.

Description of the main risks

Business risks

The main factors which affect the Group's business volumes and profit margins are competition in the construction market and changes in demand for construction services. Demand for construction services continues to be strongly influenced by the volume of public investment, which, in turn, depends partly on the co-financing received from the EU structural funds.

Competition continues to be stiff in all segments of the construction market. Bidders' prices are under strong competitive pressure in a situation where the prices of construction inputs have been consistently rising, driven by growth in labour costs. Increasingly, bidders 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 bidders for public contracts low, which sometimes results in quality and timely completion being sacrificed to the lowest price. We acknowledge the risks involved in performing contracts signed in an environment of stiff competition and rising input prices. Securing a long-term construction contract at an unreasonably low price in a situation where input prices cannot be lowered substantially and competition is fierce is risky because negative developments in the economy may quickly render the contract onerous. In setting our prices in such an environment, we focus on ensuring a reasonable balance between 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 its 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.

Our business is also influenced by seasonal changes in weather conditions, which have the strongest impact on infrastructure construction where a lot of work is done outdoors (road construction, earthworks, etc.). To mitigate the risk, we secure road maintenance contracts that generate year-round business. Our strategy is to counteract the seasonality of infrastructure operations with building construction that is less exposed to seasonal fluctuations. The Group's long-term goal is to be flexible and keep its two operating segments in relative balance. Where possible, our entities also implement different technical solutions that help them work efficiently in changing conditions.

Operational risks

To manage their daily construction risks, Group companies purchase contractors' all risks insurance. Depending on the nature of the project and the requests of the customer, both general frame agreements and special, project-specific insurance contracts are used. In addition, as a rule, subcontractors are required to secure 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. At 31 December 2019, the Group's warranty provisions (including current and non-current ones) totalled 1,321 thousand euros (31 December 2018: 900 thousand euros).

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

Financial risks

Credit risk

The Group's credit losses for the period totalled 63 thousand euros. In 2018, credit losses totalled 16 thousand euros. 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 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 1.01 (31 December 2018: 1.12). The key factor which influences the current ratio is the classification of the Group's loans to its Ukrainian associate as non-current assets and the banks' general policy not to refinance interest-bearing liabilities (particularly overdrafts) for a period exceeding twelve months.

Because the political and economic situation in Ukraine is still complicated, we believe that the Group's Ukrainian investment properties cannot be realised in the short term. Accordingly, at the reporting date the Group's loan to its Ukrainian associate of 8,016 thousand euros was classified as a non-current asset.

For better cash flow management, we use overdraft facilities and factoring by which we counter the mismatch between the settlement terms agreed with customers and subcontractors. Under IFRS EU, borrowings have to be classified into current and non-current based on contract terms in force at the reporting date. At 31 December 2019, the Group's short-term borrowings totalled 11,058 thousand euros (31 December 2018: 9,374 thousand euros).

The Group's cash and cash equivalents as at the reporting date totalled 7,033 thousand euros (31 December 2018: 7,678 thousand euros).

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. Compared to 2018, the Group's interest-bearing borrowings have increased by 3,180 thousand euros and the structure of borrowings has changed substantially. The Group did not use factoring at the reporting date because, as a rule, customers' settlement terms do not exceed 30 days. However, a change in lease accounting policies that took effect at the beginning of 2019 (adoption of IFRS 16 *Leases*) has brought operating lease liabilities, which previously were accounted for off the statement of financial position, on the statement of financial position, where they are reported within borrowings (see note 4 *Significant accounting policies*). This has increased borrowings significantly. Interest-bearing borrowings totalled 27,384 thousand euros at 31 December 2019 (31 December 2018: 24,204 thousand euros). Interest expense for 2019 amounted to 1,002 thousand euros (2018: 781 thousand euros). The rise in interest expense is attributable to both the change in lease accounting policies and a certain rise in the interest rates of overdraft facilities and leases.

The main source of interest rate risk is a possible rise in the base rates of floating interest rates. In the light of the Group's relatively heavy loan burden, this would increase interest expense significantly, which would have an adverse impact on profit. We mitigate the risk by pursuing a policy of entering, where possible, into fixed-rate contracts when the market interest rates are low. As regards loan products offered by banks, observance of the policy has proved difficult and most new contracts have a floating interest rate. We have signed a derivative contract to manage the risks resulting from changes in the interest rate of the lease of an asphalt concrete plant acquired in 2016.

Currency risk

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

The exchange rate of the hryvnia is unstable because the political and economic environment in Ukraine continues to be strained due to the conflict between Ukraine and Russia, which broke out at the beginning of 2014, and the discontinuance of the determination of the national currency's indicative exchange rate by the National Bank of Ukraine at the beginning of 2015. The hryvnia strengthened against the euro by approximately 20% in 2019. As a result, the Group's Ukrainian subsidiary, which has to translate its euro-denominated loans into the local currency, recognised a foreign exchange gain of 1,044 thousand euros (2018: 147 thousand euros). Exchange gains and losses on financial instruments *are* recognised in *Finance income* and *Finance costs,* respectively. Translation of receivables and liabilities from operating activities did not give rise to any exchange gains or losses.

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 any exchange gains or losses. Nor do the loans provided to the Ukrainian associate in euros give rise to any exchange gains or losses in the Group's financial statements.

The Swedish krona weakened against the euro by around 2% in 2019. Due to the change in the krona/euro exchange rate, the translation of operating receivables and payables resulted in an exchange loss of 16 thousand euros (2018: 76 thousand euros). The exchange loss has been recognised in *Other operating expenses.* The translation of a loan provided to the Swedish subsidiary in euros into the local currency gave rise to an exchange loss of 196 thousand euros (2018: 121 thousand euros). The exchange loss has been recognised in *Finance costs*.

We have not acquired derivatives to hedge our currency risk.

Employee and work environment risks

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

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

Environmental risks

Construction activities have a direct impact on wildlife, soil and the physical environment. Therefore, in conducting our operations we strive to protect the surrounding environment and nature as much as possible. The Group's assets and operations which have the strongest impact on the environment and, thus, involve the highest environmental risk 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 materials utilisation and proper waste management. Excessive waste, leakage, spillage, pollution, destruction of wildlife and other damage to the environment is prevented by complying with legal requirements. All of the Group's construction entities have implemented environmental management standard ISO 14001.

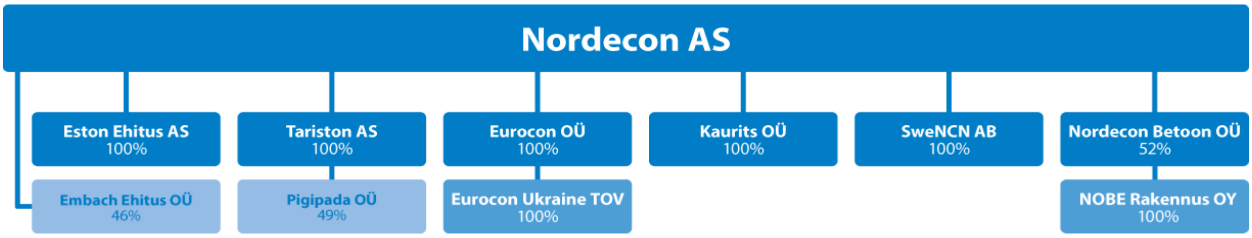
Corruption and ethical risks

As one of the leading construction companies in Estonia, we realise that it is important to be aware of the risks involved in breaching honest and ethical business practices. The Group has established internal procedures and policies, observes the rules of the Tallinn Stock Exchange and works with external and internal auditors as well as supervisory agencies. We make every effort to ensure that our entities' management quality, organizational 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 also supported by increasing implementation of IT solutions.

Business and financial review

Group structure

The Group's structure at 31 December 2019, including interests in subsidiaries and associates*



*The structure does not include the subsidiaries OÜ Eesti Ehitus, OÜ Aspi, OÜ Linnaehitus, OÜ NOBE, 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 four were established to protect business names. Nor does the structure include investments in entities in which the Group's interest is less than 20%.

Significant changes in Group structure

Merger of subsidiaries

The merger of Eston Ehitus AS (a wholly-held subsidiary of Nordecon AS) and its wholly-held subsidiary Magasini 29 OÜ was finalised in July 2019. In the transaction, Magasini 29 OÜ was acquired by Eston Ehitus AS. Magasini 29 OÜ was established to carry out a real estate development project in Tallinn. After the completion of development activities, including the sale of the terraced homes, the company's continuance as a separate entity was no longer practical. The merger was registered at the Commercial Registry on 9 July 2019.

Changes in Group structure after the reporting period

Increase in ownership interest in Embach Ehitus OÜ

A change in the capital structure of Nordecon AS's former associate Embach Ehitus OÜ was finalised and entered in the Commercial Registry on 5 March 2020. Through the transaction, Nordecon AS increased its ownership interest to 51% and Embach Ehitus OÜ became a subsidiary of Nordecon AS. The share capital of Embach Ehitus OÜ amounts to 30,000 euros of which 15,300 euros is attributable to Nordecon AS. Embach Ehitus OÜ has been accounted for as a subsidiary and its financial information has been consolidated in the financial statements of Nordecon AS since 1 March 2020.

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 sub-segments. A significant share of the core business was conducted by the parent, Nordecon AS, which is also a holding company for the Group's larger subsidiaries. In addition to the parent, construction management services were rendered by the subsidiaries Nordecon Betoon OÜ (brand name NOBE) and Eston Ehitus AS.

As regards our other main business lines, we continued to provide concrete services (Nordecon Betoon OÜ), lease out heavy construction machinery and equipment (Kaurits OÜ) and render regional road maintenance services in the Kose maintenance area in Harju county and in Järva and Hiiu counties (Tariston AS).

We did not enter any new operating segments in Estonia.

Foreign markets

Ukraine

There were no changes in our Ukrainian operations during the period under review. In the past year, our business activity in Ukraine has decreased somewhat. The Group remains conservative about the projects it undertakes. We have signed contracts only when we have been certain that the risks involved are reasonable given the circumstances.

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

Finland

There were no changes in our Finnish operations during the period under review. 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 2019, our business volumes in Finland grew significantly compared to previous years.

Sweden

There were no significant changes in our Swedish operations during the period under review. The Group's subsidiary SweNCN AB continued to deliver services under building construction contracts secured as a general contractor. In 2019, the Group's operations in Sweden grew compared to 2018.

Performance by geographical market

In 2019, revenue generated outside Estonia accounted for around 11% of the Group's total revenue, rising to recent years' highest level.

	2019	2018	2017	2016	2015
Estonia	89%	93%	94%	93%	96%
Sweden	5%	2%	3%	4%	0%
Finland	4%	1%	1%	1%	1%
Ukraine	2%	4%	2%	2%	3%

The Group brought in its largest-ever Finnish revenue in 2019. Our biggest project in the Finnish market is a subcontract for building concrete constructions for the Raitinkartano commercial and residential building. The Group's Swedish revenue also grew year on year, underpinned by two new apartment building contracts secured as a general contractor and a concrete works contract secured as a subcontractor for building foundations for 73 wind turbines in a wind farm being built in northern Sweden (all signed in 2019). The contribution of the Ukrainian market, on the other hand, decreased by almost a half compared to 2018.

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

Performance by business line

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

Nordecon's revenues for 2019 totalled 234,071 thousand euros, a roughly 4.7% increase from the 223,496 thousand euros generated in 2018. The revenue generated by the Buildings segment grew by around 5% and the revenue generated by the Infrastructure segment grew by around 5% compared to 2018. The shortage of infrastructure construction projects, which is affecting the entire Estonian construction market (and the Group's chosen strategy), has also left its mark on our revenue structure.

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 sub-segment decline sharply while another begins to grow more rapidly.

Segment revenues

In 2019, our Buildings and Infrastructure segments generated revenue of 170,647 thousand euros and 63,063 thousand euros, respectively. The corresponding figures for 2018 were 162,909 thousand euros and 60,086 thousand euros (see note 25). Since a substantial share of Nordecon's revenue for 2019 was earned in Estonia, our revenue structure reflects quite fairly the overall situation in the Estonian construction market (see the chapter *Market trends*).

Revenue by segment*

Operating segments	2019	2018	2017	2016	2015
Buildings	70%	72%	74%	73%	64%
Infrastructure	30%	28%	26%	27%	36%

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

Subsegment revenues

The largest revenue source in the Buildings segment is still the commercial buildings subsegment whose revenue for 2019 remained comparable to 2018. The largest projects of the period were the reconstruction and extension of the building of Terminal D in the Old City Harbour, the construction of phase I of the Porto Franco commercial and office development next to the Admiralty Basin and a multi-storey car park at Sepapaja 1, the design and construction of an eight-floor accommodation building at Liimi 1B and a concrete frame for an eight-floor car park and commercial building at Tammsaare tee 92 in Tallinn, and the design and construction of a multi-storey car park for Tartu University Hospital in Tartu.

Accommodation building at Liimi 1B. Nordecon Betoon OÜ

The strongest-growing subsegments were public buildings and apartment buildings, which increased their revenue by 14% and 16% year on year, respectively. Major public buildings completed and delivered in 2019 were an academic building of the Estonian Academy of Security Sciences in Tallinn, the building of the Kohtla-Järve state upper secondary school, the Peetri sports and leisure centre in Rae parish, an assembly area for the defence forces' base at Tapa and a barracks for 300 people at the defence forces' base at Jõhvi.

A significant share of our Estonian apartment building projects is located in or near Tallinn. Large projects completed in Tallinn in 2019 included phases III and IV of the Sõjakooli project and apartment buildings at Lesta 10, Sammu 6 and Valge 16. The subsegment's revenue is also strengthened by contracts signed in Sweden, where the Group continues to provide services under three housing development contracts.

We continue to build our own housing development projects in Tallinn and Tartu (reported in the apartment buildings subsegment). During the period, we completed the construction and sale of a four-floor apartment building with 21 apartments at Nõmme tee 97 in Tallinn and three apartment buildings with 10 apartments each at Aruküla tee in Tartu. Work continues on a five-floor apartment building with 24 apartments at Võidujooksu 8c in Tallinn (www.voidujooksu.ee). Our own housing development revenue amounted to 6,528 thousand euros in 2019 (2018: 9,369 thousand euros). In carrying out real estate development activities, we monitor closely potential risks in the housing development market.

The largest projects in the industrial and warehouse facilities subsegment were the construction of a warehouse and office building in Kaldase tee in Maardu, the reconstruction (phase V) of the fattening unit of a pig farm of Rakvere Farmid AS (EKSEKO), the construction of micro-warehouses in Betooni street in Tallinn and the construction of a commercial and warehouse building in Savi street in Pärnu. Compared to previous periods, the contribution of contracts signed with the agricultural sector has decreased significantly, which is one of the reasons for the subsegment's revenue decline. In 2019, the subsegment's revenue decreased by around 48% year on year.

Revenue breakdown in the Buildings segment	2019	2018	2017	2016	2015
Commercial buildings	36%	35%	25%	16%	50%
Public buildings	29%	25%	19%	30%	16%
Apartment buildings	27%	25%	30%	34%	22%
Industrial and warehouse facilities	8%	15%	26%	20%	12%

In the Infrastructure segment, the share of revenue generated by the road construction and maintenance subsegment decreased for the first time in several years. However, this was mostly due to a few large other engineering projects. There is no general trend indicating a rise in investments in subsegments other than road construction and maintenance. During the period, a major share of the revenue of the road construction and maintenance subsegment resulted from the performance of contracts secured in 2018: the construction of passing lanes on the Pikknurme-Puurmani section of the Tallinn–Tartu–Võru–Luhamaa road (a 2+1 road section) and roads and bridges for the defence forces' central training area in Kuusalu parish. The strongest revenue contributors among contracts secured in 2019 were two large projects: one for the construction of the Missoküla-Hindsa section (8 km) and the Misso small town section (2 km) of main road no. 7 Riga-Pskov and the other for the construction of the Kernu bypass and the Kernu filling station and Haiba junctions. A significant share of the subsegment's revenue resulted from forest road improvement services provided to the State Forest Management Centre. The Group continues to provide road maintenance services in Järva and Hiiu counties and the Kose maintenance area in Harju county.

The Group completed the construction of the Kiili-Paldiski section of the onshore part of Balticconnector (a gas pipeline between Estonia and Finland), which made a strong contribution to other engineering revenue for 2019. The subsegment's revenue was also influenced by the construction of foundations for 73 wind turbines in the Nysäter wind farm being built in northern Sweden, near Sundsvall, which will continue in 2020.

Earthworks on the Kiili-Paldiski section of a DN700 MOP54 gas pipeline. Kaurits OÜ

Revenue breakdown in the Infrastructure segment	2019	2018	2017	2016	2015
Road construction and maintenance	78%	89%	86%	86%	81%
Other engineering	18%	7%	8%	9%	14%
Environmental engineering	3%	4%	6%	5%	4%
Specialist engineering (including hydraulic engineering)	1%	0%	0%	0%	1%

Selection of completed projects

Major projects completed by Group entities in different sub-segments in 2019*:

Brief description of the project	Group entity	Customer	Sub-segment
Construction of the Veskitammi junction on national road no. 4 Tallinn-Pärnu-Ikla, km 13.0-13.7	Nordecon AS	National Road Administration	Road construction
Reconstruction of the Missokülä-Hindsa section of main road no. 7	Nordecon AS	National Road Administration	Road construction
Construction of passing lanes on the Pikknurme-Puurmani section of main road no. 2, km 142.2-146.9	Nordecon AS	National Road Administration	Road construction
Construction of the main building of the Estonian Academy of Security Sciences	Nordecon AS	Estonian Academy of Security Sciences	Public buildings
Kohtla-Järve state upper secondary school	Nordecon AS	Ministry of Education and Research	Public buildings
Barracks at the defence forces' base at Jõhvi	Nordecon AS	Centre for Defence Investment	Public buildings
Assembly area at the defence forces' base at Tapa	Nordecon AS	Centre for Defence Investment	Public buildings
Peetri sports and leisure centre in Rae parish	Nordecon AS	Peetri Keskus OÜ	Commercial buildings
Apartment buildings at Lesta 10 in Tallinn	Nordecon AS	OÜ Haven Kakumäe	Apartment buildings
Apartment buildings in phases III and IV of the Sõjakooli project and at Sammu 6 in Tallinn	Nordecon AS	Marsi Elu OÜ	Apartment buildings
Apartment building at Valge 16 in Tallinn	Nordecon AS	Valge 16 OÜ	Apartment buildings
Building of a COOP supermarket at Paikuse	Eston Ehitus AS	Vändra Investeeringud OÜ	Public buildings
Accommodation building at Liimi 1b in Tallinn	Nordecon Betoon OÜ	Liimi 1b Holding OÜ	Commercial buildings
Multi-storey car park for Tartu University Hospital in Tartu	Nordecon Betoon OÜ	Citypark Eesti OÜ	Commercial buildings
Construction of roads in the target area of the defence forces' central training area	Tariston AS	Centre for Defence Investment	Road construction
Construction of roads and bridges in the defence forces' central training area	Tariston AS	Centre for Defence Investment	Road construction
Earthworks on the Kiili-Paldiski section of the onshore part of the Balticconnector gas pipeline	Kaurits OÜ	EG Ehitus AS	Other engineering

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

New main building of the Estonian Academy of Security Sciences. Nordecon AS

Financial review

Financial performance

In an environment of continuously stiff competition, Nordecon's gross profit and gross margin improved. The Group ended the year with a gross profit of 11,763 thousand euros (2018: 10,033 thousand euros) and a gross margin of 5.0% (2018: 4.5%). The gross margin of the Buildings segment increased considerably, rising to 6.3% for 2019 (2018: 4.7%). The gross margin of the Infrastructure segment, on the other hand, weakened noticeably, dropping to 3.5% for 2019 (2018: 5.6%), which is certainly less than satisfactory. The Infrastructure segment is mainly involved in the performance of road construction and maintenance contracts. Road construction, which is capital intensive, requires a certain critical amount of work to cover its fixed costs, the largest share of which is made up of costs related to asphalt concrete production and laying equipment. The road maintenance result is mainly influenced by the weather. Exceptionally challenging weather conditions in the first two months of 2019 had an adverse impact on the profitability of national road maintenance contracts. The average cost of new road construction projects has decreased, which, in turn, has increased the number of bidders for a project. Also, the gap between contractors' asphalt concrete production capacity and market demand has widened: according to estimates, production capacity exceeds demand by at least 25%. All this has had a negative impact on bid prices and the Group has not been sufficiently successful in winning public road construction contracts. Input costs continue to rise, which has a particularly strong effect on the profitability of general contractors. According to Statistics Estonia, in 2019 the construction price index increased by 1.9% compared to the average figure for 2018. Labour costs increased by 4.3%, plant and equipment costs by 2.0% and materials costs by 0.7% compared to the average figures for 2018.

The Group's administrative expenses for 2019 totalled 6,837 thousand euros. Compared to 2018, administrative expenses increased by around 2.0% (2018: 6,725 thousand euros) and the ratio of administrative expenses to revenue was 2.9% (2018: 3.0%).

The Group ended 2019 with an operating profit of 4,270 thousand euros (2018: 4,031 thousand euros). EBITDA amounted to 7,311 thousand euros (2018: 6,021 thousand euros) and EBITDA margin was 3.1% (2018: 2.7%).

Finance income and costs of the period continued to be influenced by exchange rate fluctuations in the Group's foreign markets. During the period, the Ukrainian hryvnia strengthened against the euro by around 20% and the Group recognised an exchange gain of 1,044 thousand euros (2018: 147 thousand euros) on the translation of loans provided to the Ukrainian subsidiary in euros. The Swedish krona, on the other hand, weakened against the euro by around 2% and the Group recognised an exchange loss of 196 thousand euros (2018: 121 thousand euros) on the translation of a loan provided to the Swedish subsidiary in euros. In addition, interest expense increased by 221 thousand euros year on year due to changes in lease accounting policies (see note 4 *Significant accounting policies*).

The Group earned a net profit of 4,149 thousand euros (2018: 3,821 thousand euros) of which the net profit attributable to owners of the parent, Nordecon AS, was 3,378 thousand euros (2018: 3,381 thousand euros).

Cash flows

Operating activities of 2019 produced a net cash inflow of 8,003 thousand euros (2018: 4,692 thousand euros). The key factor that affects operating cash flow is the mismatch between customers' and suppliers' settlement terms. Cash flow is also strongly influenced by the fact that the contracts signed with both public- and private-sector customers do not require the customer to make advance payments while the Group has to make prepayments to subcontractors, materials suppliers, etc. 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 resulted in a net cash inflow of 220 thousand euros (2018: 2,934 thousand euros). The largest items were amounts paid for property, plant and equipment of 594 thousand euros (2018: 534 thousand euros) and proceeds from sales of property, plant and equipment of 377 thousand euros (2018: 1,784 thousand euros). Dividends received amounted to 489 thousand euros (2018: 460 thousand euros). In 2018, cash flows from investing activities were also influenced by the sale of investment property for 1,300 thousand euros.

Financing activities generated a net cash outflow of 8,863 thousand euros (2018: an outflow of 8,863 thousand euros). The largest items in financing cash flows were loan and lease payments. Proceeds from loans received totalled 3,705 thousand euros, comprising development loans and overdrafts used (2018: 2,898 thousand euros). Loan repayments totalled 4,032 thousand euros (2018: 4,671 thousand euros), consisting of scheduled repayments of long-term investment and development loans. Lease payments totalled 3,276 thousand euros (2018: 1,879 thousand euros). Lease payments increased in connection with changes in lease accounting policies (see note 4 *Significant accounting policies*). Dividends paid amounted to 2,360 thousand euros (2018: 2,627 thousand euros). Payments made on the reduction of share capital amounted to 1,892 thousand euros (2018: 1,847 thousand euros).

The Group's cash and cash equivalents totalled 7,032 thousand euros at 31 December 2019 (31 December 2018: 7,678 thousand euros). Management's commentary on liquidity risks is presented in the chapter *Description of the main risks*.

Key financial figures and ratios

Figure/ratio for the period	2019	2018	2017	2016	2015
Revenue (EUR ‘000)	234,071	223,496	231,387	183,329	145,515
Revenue change	4.7%	-3.4%	26.2%	26.0%	-9.8%
Net profit (EUR ‘000)	4,149	3,821	1,725	3,933	174
Net profit attributable to owners of the parent (EUR ‘000)	3,378	3,381	1,388	3,044	179
Weighted average number of shares	31,528,585	31,528,585	30,913,031	30,756,728	30,756,728
Earnings per share (EUR)	0.11	0.11	0.04	0.10	0.01
Administrative expenses to revenue	2.9%	3.0%	3.0%	3.3%	3.5%
EBITDA (EUR ‘000)*	7,311	6,021	3,123	6,017	5,769
EBITDA margin	3.1%	2.7%	1.3%	3.3%	4.0%
Gross margin	5.0%	4.5%	3.8%	6.0%	6.2%
Operating margin	1.8%	1.8%	0.5%	2.3%	2.7%
Operating margin excluding gain on asset sales	1.7%	1.3%	0.5%	2.2%	2.4%
Net margin	1.8%	1.7%	0.7%	2.1%	0.1%
Return on invested capital	10.0%	8.4%	5.9%	8.5%	2.1%
Return on equity	12.5%	11.2%	4.8%	10.6%	0.5%
Equity ratio	27.9%	32.4%	30.8%	38.6%	40.1%
Return on assets	3.7%	3.5%	1.6%	4.2%	0.2%
Gearing	33.8%	28.5%	32.7%	16.7%	25.5%
Current ratio (note 5)	1.01	1.12	1.11	1.20	1.03

As at 31 December	2019	2018	2017	2016	2015
Order book (EUR ‘000)	227,545	100,352	144,122	131,335	125,698

* EBITDA includes the effects of goodwill. 2016: gain from a bargain purchase of 139 thousand euros, 2014: an impairment loss on goodwill of 192 thousand euros and gain from a bargain purchase of 414 thousand euros.

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 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 227,545 thousand euros at 31 December 2019. Compared to the end of 2018, the order book has increased more than two times. The Group signed new contracts of 305,695 thousand euros in 2019 (2018: 134,419 thousand euros). The Group has been equally successful in winning both public and private contracts.

EUR '000 As at 31 December	2019	2018	2017	2016	2015
Order book	227,545	100,352	144,123	131,698	85,594

At the reporting date, contracts secured by the Buildings segment and the Infrastructure segment accounted for 85% and 15% of the Group's total order book, respectively (31 December 2018: 72% and 28%, respectively). Compared to 31 December 2018, the order books of both segments have grown. The order book of the Buildings segment has increased more than 2.5 times and that of the Infrastructure segment by 21%.

In the Buildings segment, the order books of all subsegments have increased year on year. Growth has been the strongest in the apartment buildings subsegment whose order book is the largest in the Buildings segment, accounting for 39% of the total. A major share of the order book of the apartment buildings subsegment is made up of the contract of around 40 million euros for the design and construction of the first two phases of the Kalaranna quarter in Tallinn. The subsegment's order book also includes the work secured but not yet performed in Sweden where the Group continues to build two apartment buildings: one near Uppsala city centre and the other in the Bromma district in Stockholm. The order books of the public buildings and the commercial buildings subsegments account for 23% and 20% of the segment's order book, respectively. A large share of the order book of the public buildings subsegment is made up of contracts for the construction of the Estonian Academy of Security Sciences and the University of Tartu Learning Centre in Narva, a sports and health centre at Kohtla-Järve, a storage complex at the defence forces' base at Tapa and a new basic school, Kindluse Kool, in Järveküla, near Tallinn. In the commercial buildings subsegment, the largest projects in progress are in Tallinn: the construction of a new seven-floor commercial building in Rotermann City and phase I of the Porto Franco development as well as the design and construction of phase II of a multi-storey car park in Ülemiste City. The order book of the industrial and warehouse facilities subsegment has grown through a contract for the construction of a dairy complex for E-Piim in Paide.

For a long time, the order book of the Infrastructure segment has been dominated by contracts secured by the road construction and maintenance subsegment. However, in the reporting period the structure of the segment's order book changed significantly. At the reporting date, other engineering contracts accounted for roughly a half of the order book of the Infrastructure segment. A major share of the order book of the other engineering subsegment is made up of a contract secured in the third quarter for the construction of foundations for 73 wind turbines in the Nysäter wind farm in northern Sweden, near Sundsvall. The other half of the Infrastructure order book is made up of contracts awarded to the road construction and maintenance subsegment whose largest projects include a contract secured in the second quarter of 2019 for building the Kernu bypass and the Kernu filling station and Haiba junctions on the Tallinn-Pärnu-Ikla road and a contract secured at the end of the financial year for the reconstruction of the Vinso-Kirmsi section of the Võru-Räpina road. The Group continues to provide road maintenance services in three road maintenance areas: Järva, Hiiu and Kose.

Although the Group's order book includes a considerable amount of work that will continue into 2021, we expect that in 2020 the Group's revenue will grow compared to 2019. It is important to note, however, that it is not yet possible to quantify the impact of the coronavirus (COVID-19) outbreak on the Group's operations and financial performance (see note 38 to the financial statements). In an environment of stiff competition, we have avoided taking unjustified risks whose realisation in the contract performance phase would have an adverse impact on the Group's results. Despite this, where suitable opportunities arise, we strive to increase the portfolio to counteract the pressure on margins that is caused by the market situation. Our preferred policy is to keep fixed costs under control and monitor market developments closely.

Construction work on the Porto Franco development. Nordecon AS, Nordecon Betoon OÜ

Investments and capital expenditures

Equity investments

We did not make any significant investments in non-Group entities in 2019. Investments made are described in the directors' report, in the chapter *Group structure*, and in notes 6 and 7 to the financial statements.

Investment properties

We did not acquire any new investment properties during the period (2018: 88 thousand euros) (properties held for resale, rental income or capital appreciation). During the period, we did not sell any investment properties (2018: we sold an investment property in Tartu, see note 13 to the financial statements).

Investments in property, plant and equipment and intangible assets

Capital expenditures on property, plant and equipment totalled 5,859 thousand euros in 2019 of which 4,318 thousand euros was spent on right-of-use assets (2018: 2,052 thousand euros, right-of-use assets nil euros) (see note 14). Investments made fell into three main categories: replacement of obsolete machinery and equipment, improvement of operating efficiency, and ensuring compliance with road maintenance requirements.

There were no major outlays on intangible assets (see note 15).

Changes in the carrying amounts of relevant asset classes

Asset class (EUR '000)	2019	2018
Investments in equity-accounted investees (note 12)	103	378
Property, plant and equipment (note 14)	6,714	-278
Intangible assets (note 15)	62	35

In 2020, the volume of capital expenditures will remain comparable to 2019. The focus will be on replacing obsolete machinery and equipment and improving operating efficiency.

Quality service and customer experience

Builders are aware of customers' increasingly higher requirements and expectations regarding the quality of both the process and the end result. The Group believes that in the construction business 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 the same goal. A successful project requires open and honest communication between all parties. The customer must have clear and fair expectations. The construction company's responsibility is to provide the customer with regular feedback, share information transparently and solve any issues in a timely manner.

The quality metrics of a construction company, which is a key player in the collaboration chain, are properly managed projects and buildings and infrastructure assets, which have been delivered on time and meet the agreed quality standards. Construction quality, transparent activity and open communication with the customer throughout the construction process ensure the highest level of customer satisfaction.

In 2019, the National Road Administration supplemented its project evaluation criteria with the quality criterion, which enables the contractor to receive a bonus for exceptionally good work. The quality of asphalt laid is measured and based on the results the contractor may receive a bonus of 1% of the total cost of the project. In the reporting period, the Group received a bonus for the Lelle-Käru (national road no. 15) and Misso (main road no. 7) projects where the quality of work performed exceeded contractual requirements.

Quality management ensures safety

Safety is the most important outcome of high-quality construction work. Thus, the Group's primary responsibility is to build safe and secure buildings and infrastructure assets. Safety depends on:

- planning and design that meet applicable requirements;
- the selection of suitable materials;
- safe technical solutions;
- proper order of works and compliance with technological requirements;
- consistent supervision and control of critical operations in each area of work.

The Group understands its role in ensuring end-user safety and makes no concessions in matters related to the safety of completed buildings and infrastructure assets. Any design and construction errors identified during regular inspections carried out during the project are corrected. After a project has been completed, the customer receives instructions for maintaining the quality, condition and safety of the building or infrastructure asset.

There were no cases of non-compliance with occupational health and safety regulations at Group entities in 2019 (2018: zero cases of non-compliance).

Reconstruction of the Missokülä-Hindsa section of main road no. 7. Nordecon AS

Quality management system

Successful execution of the Group's construction projects is based on conscious and systematic quality management. To ensure the compliance of work done and meet goals set, we observe in all our projects:

- the customer's requirements and project documentation;
- construction legislation, regulations and standards;
- the Group's management system.

The Group's quality, environmental, and occupational health and safety management systems are based on the requirements of the relevant international standards (ISO 9001, ISO 14001, OHSAS 18001/ISO 45001).

The Group's Swedish subsidiary SweNCN AB applies a local standard, BF9K, which covers quality, environmental and occupational safety policies. The standard provides the company with the necessary quality label, which enables it to better meet customer expectations and to compete for and win new projects more effectively.

The purpose of a Group-wide core framework is to make sure that similar overall quality, work arrangement and open communication principles are observed in all projects managed by the Group. Each subsidiary applies the management system consistent with the nature of its business, and each project and site manager uses the system to create a context-specific work arrangement.

For a management system to be used in practice, employees need to be informed and aware, the system must be consistently updated with relevant information and results must be regularly reviewed by management. The Group's quality management department supports other units and project teams in implementing the system and regular internal audits of the management system are carried out on the construction sites, in the structural units and among managers of the parent. Internal audits of the management system carried out in 2019 did not detect any instances of non-conformity that might have prevented the achievement of goals set.

For information about the period's warranty expenses, please refer to note 21.

At the parent company, each completed asset (building or infrastructure asset) is assigned a quality coefficient which is calculated on the basis of five indicators:

- timely completion and delivery of the asset;
- number of rectification works at the planned date of completion (according to the customer's observations and work still in progress);
- customer feedback and satisfaction (including complaints handling);
- accidents at work and safety incidents (including isolated and repeated breaches);
- technical inspections.

Project teams' performance-related pay depends on the quality coefficient which is why its application is an important measure in enforcing quality requirements on construction sites.

The Group maintains a Deficiencies and Recommendations Register where all written orders, notices of non-compliance and complaints received from the authorities, supervisory agencies, business partners and individuals are recorded. Each case is resolved and conclusions are drawn to prevent similar mistakes in the future.

Project management and cooperation with customers to ensure timely completion

The Group's goal is to finish construction work within the timeframe agreed with the customer. Procurement and contract terms consistently increase the obligations and liability of the general contractor. Customers' requirements are high and carefully considered, which assumes close cooperation and hard work to meet the deadlines.

In addition to shortages of qualified labour and the occasional unreliability of subcontractors, completion may be delayed by unforeseen circumstances arising during the work. To provide for contingencies and ensure timely completion, the Group applies, among other measures, the following three approaches:

1. **We plan construction works so that their actual substantial completion is achieved ahead of schedule.** This leaves sufficient time for liquidating possible deficiencies in the final phase of the works and delivering the building or infrastructure asset in the state of final completion on time.

2. **We pay increasing attention to proactive and transparent communication with customers.** Forward-looking planning helps anticipate potential challenges. Project and site managers must identify problems in a timely manner, discuss matters openly and resolve problems in cooperation with the parties involved.

3. **We seek more efficient and optimal solutions.** Before work commences, we ask designers to correct any errors and remove any inconsistencies and over-dimensional solutions. We also increasingly use prefabricated units and components.

"The Veskitammi junction is an important part of a larger project: the construction of national road no. 4 Tallinn – Pärnu – Ikla, km 13.0-16.0, border of Tallinn – Topi intersection, which is financed from the EU Cohesion Fund. The work done has greatly improved road traffic conditions and increased rail safety. The solution offers pedestrians an opportunity to move separately from motor vehicles, while taking into account the interests of drivers and the needs of public transport. The Veskitammi project has also created new public areas with resting places, well-designed green space and an international graffiti gallery in pedestrian underpasses.
I would like to highlight the dedicated work of the project team and their commitment to completing the project on time and providing good temporary traffic management solutions. Both objectives were achieved.
The key to executing such a project is cooperation with all stakeholders, including the engineer, the customer, the authorities, local residents, road users and the managers of utility networks."
Ksenia Haavistu,
Project manager at the northern road management department of the National Road Administration

Digital construction and technological solutions

We believe that the implementation of digital solutions is currently the biggest challenge and opportunity for the construction sector.

Construction is a low-productivity business across the world. Rapidly developing digital construction i.e. various digitalisation solutions help modernise the construction industry, improve its efficiency and make its image more attractive to young people choosing a profession. To develop the field in Estonia, the Digital Construction Cluster and an e-construction website have been created for stakeholder groups.

Nordecon is a member of the Digital Construction Cluster and an active member of its board. This enables us to participate in construction and development-related discussions and to keep informed about national digitalisation initiatives.

Our ambition is not simply to keep up but to be a leader and spokesperson in this area. In the next few years, we will focus on digitalisation in all aspects of our work. Digital solutions, which have already been implemented, will become standard practice and the opportunities offered by different software will be harnessed more extensively.

Building Information Modelling (BIM) is the main modern digital construction tool, which has been widely implemented by the Group and other larger construction companies operating in the Estonian market. It is an IT solution that facilitates collaboration between all parties involved in a construction project (including the architect, the designer, the budgeter and the builder) by enabling them to collectively create a digital 3D model of a building or infrastructure asset.

It would benefit the construction sector if the creation of digital models were regulated by a national standard, which would ensure that all designers make models based on the same rules.

A shortcoming in the use of BIM is that it is widely used in the design and pre-construction phase but much less on the construction site. Thus, its full potential is not realised. Nordecon's goal is to educate its partners and introduce new technical solutions. In project management, BIM enables the parties at the table to better understand project-related matters.

In Nordecon Group, digital construction has three main aspects:

1. Use of BIM or 3D models in design

- 3D models are used in almost all of the Group's projects. We also expect external designers to use BIM. This helps set a trend in the market.
- BIM improves overall project quality as errors are identified and corrected before the construction stage and provides the customer with a better overview and understanding of the process.
- Model-based project management increases transparency and improves communication – all parties have the same information, which helps them understand each other's needs.
- In 2019, we used BIM in 41 projects (2018: 47; 2017: 31; 2016: 15).

For Nordecon, the construction of Terminal D in the Old City Harbour and the Kohtla-Järve state upper secondary school were the first projects where the use of BIM was required by the contract. In such a project, the building is delivered together with its detailed digital version, which the customer can use in building management. It was one of the period's main IT developments, which assumes that site operations are managed using a 3D model. The entire contract performance documentation can be saved in a single comprehensive 3D environment. In light of our goals for the next few years, this was a big step forward.

Kohtla-Järve state upper secondary school. Nordecon AS

2. Digitalisation of construction project and site documentation

- Management of a construction project gives rise to a lot of documents: construction site record books and logbooks, instruments of delivery and receipt, certificates, etc. For three years already we have been managing these documents digitally, using project management software Bauhub.
- Bauhub provides all parties with the same information environment and makes project management faster, simpler, more transparent and systematic.
- From 2019 it is standard practice that all documents related to a construction project are prepared and signed in the digital environment. Most projects have no documents signed on paper.
- We want to widen the use of Bauhub and make as many documents digital as possible. To realise the full potential of the digital environment it is important that subcontractors should use it too. This requires additional work from us.

3. Digitalisation of other work

We have implemented various IT solutions to also do other work more quickly, conveniently and smartly. For example:

- Simple-BIM is a new program for budgeters who use 3D models and other digital environments to improve their efficiency.
- Dalux is software that enables the user of a smart device to view and check a 3D model on the construction site. It includes an augmented reality app, which can be used to merge a model into the real-time physical environment and make comparisons. The solution is used to check the model to be executed.
- BlueBeam is a technical solution for exchanging information contained in PDF documents.

In addition to increasing convenience and speed, digitalisation helps make the construction sector more environment-friendly, safer and more transparent:

- Model-driven design helps develop smarter energy consumption, space planning, lighting, indoor climate and other solutions.

- By entering a building with a virtual reality headset, we can implement forward-looking changes and create an error-free solution at the first attempt.
- A preliminary virtual walk-through of the construction process helps us identify which areas will become danger zones and plan how to mark them safely on the construction site.
- Digitalisation helps improve the transparency of information related to all parties to a construction contract. If we want our subcontractors to implement digital solutions, we have to lead by example.

Tariston took drones into standard use in 2019 because measurement data provided by drones is now accepted in Estonia. Drones are used to measure soil volumes both on construction sites and in quarries used for the extraction of construction materials.

Customer satisfaction

Each customer is important for the Group. Besides providing quality service, we maintain customer relationships through personal communication. Positive customer feedback is based on a good understanding of the customer's needs and expectations, a smooth execution of the project and the delivery of a quality end-result. We work daily to achieve customer satisfaction.

- Our project and site managers and foremen play a key role in creating trust and shaping the Group's reputation. The main techniques are professional and transparent communication and regular meetings.
- We remember customers' representatives on holidays and special occasions and invite them to customer events, which are often attended by our project teams.
- In 2019, we harmonised the Group's marketing processes (media communication, site events, collaboration with the customer) so that the approach of all divisions and site teams would be more systematic and consistent.

To ensure and increase customer satisfaction, the parent asks its customers to rate different aspects of collaboration on a 12-point scale. The questionnaire enables the customer to evaluate the conformity of work done with expectations, on-site work arrangement and tidiness, the skills and cooperativeness of the project team, fulfilment of agreements (including adherence to deadlines) as well as work done by subcontractors, and to give the project an overall rating. In 2019, the satisfaction index of the parent's customers was 10.4 points out of 12, i.e. 87% of the maximum (2018: 92%).

Subsidiaries that measure customer satisfaction apply different scales. In 2019, their customer satisfaction ratings were as follows: Eston Ehitus AS 90% (2018: 83%), Tariston AS 89% (2018: 90%), Kaurits OÜ 100% (2018: 100%), Eurocon Ukraine TOV 80% of the maximum. (The number of respondents: Nordecon AS 17, Tariston AS 15, Kaurits OÜ 1, Eston Ehitus AS 4 and Eurocon Ukraine TOV 5.)

Similarly to 2018, customer satisfaction with the work of Group entities was high.

When I went to the first meeting, held in a heated shelter next to the construction site, I sensed professionalism: people at the table were all passionate and dedicated specialists who put their heart and soul into their work. Starting from the fact that wearing a helmet was a must on the site to the fact that they were willing to accept new ideas and make some changes in the final stages of the work. When a new school is built, it is important that the headmaster's visions and values should be realised, because a school is a building and a landmark which will reflect those visions and values for decades or even hundreds of years to come.

The building of the Kohtla-Järve upper secondary school was built exceptionally quickly but this did not affect quality. I saw how the builder communicated with the subcontractors and partners. They were considerate (although probably also demanding), constructive and respectful. This creates preconditions for a good outcome and a satisfied end-user. And this is exactly how it went.

The builders put their heart into the schoolhouse and you can feel it.

Hendrik Agur

Headmaster of Kohtla-Järve upper secondary school

Local communities

Disturbing the surrounding area as little as possible is a part of a quality construction process. Construction activity is inevitably accompanied by noise, vibration, dust, transport and changes in traffic management, which affect the wellbeing of people living in the neighbourhood.

It is not possible to eliminate disturbing factors altogether but their impacts can be reduced by taking certain steps. Our two principal measures are giving residents advance notice and observing principles that reduce the impacts and inconvenience of construction work:

- We encourage all site managers to visit residents of the area before a project begins and inform them about the works that have been planned. The community is also informed about major changes during the project.
- Information about the projects contracted by the National Road Administration is published regularly in the local media.
- To shorten the period of disturbance, we sometimes ask the community and local authorities to permit longer workdays.
- Where possible, we schedule noisier work for times when it disturbs the local community as little as possible.

Veskitammi junction on national road no. 4 Tallinn-Pärnu-Ikla, km 13.0 – 13.7. Nordecon AS

In 2019, we organized two media and communication training courses for site and project managers to help them understand the needs and expectations of local communities and respond to them in a timely manner to prevent potential conflicts.

In general, we have good relations with local communities. People are accommodating and understanding, and smaller issues are resolved as they arise. In 2019, we received 6 reasoned official complaints from people living near construction sites. They were related to dust, noise, construction waste, dirt, vehicles and traffic safety (2018: 2).

Good relations with local people support the Group's further steps in the area. For example, in Vaivara the Group transformed a depleted quarry into a recreation area for the community.

As a responsible construction company, the Group strives to avoid any damage to the surrounding buildings and infrastructure. Before we start work, we register the state of the neighbouring buildings and infrastructure by taking pictures and making videos. This allows us to identify the aspects which should be monitored to prevent possible damage during construction work. It also helps us resolve the claims submitted by owners of neighbouring properties efficiently and on the basis of facts. The Group covers the costs of rectifying the damage its construction work has caused to buildings or infrastructure.

Employees and personnel expenses

Construction is labour intensive and similarly to other sectors strongly affected by the shortage of labour. Nordecon wishes to offer its employees a modern and professional work environment and opportunities for personal development, a rewarding work experience, and meaningful and effective work.

The main external factors of 2019 continued to be upward pressure on wages, which characterised the entire construction sector, and stiff competition for qualified and skilled labour. In recent years, the Group's focus has been on increasing productivity and finding solutions that improve operating efficiency.

In autumn 2019, we conducted a 1.5-month-long pilot project at the Group's parent, which involved logging all working time activities to collect factual information about the time spent on different activities, the distribution of workloads and activities which may require automation. The data enables us to analyse the results of a construction project more accurately because in addition to the cost of on-site operations we can factor in the cost of preparatory activities. This helps us plan our activities more effectively and adopt more informed management decisions. At the beginning of 2020, detailed recording of working time was implemented across the parent. We use a special electronic application which can be used both on a computer and a smart device.

In 2019, the Group (the parent and the subsidiaries) employed, on average, 687 people including 414 engineers and technical personnel (ETP). Headcount remained stable compared to 2018. On average, our people have been with us for 6.9 years.

Average number of employees at Group entities

Year	Engineers and technical personnel	Workers	Total average
2019	414	273	**687**
2018	419	268	**687**
2017	426	309	**735**
2016	381	303	**684**
2015	356	334	**690**

Workforce profile based on the annual average number of employees

	ETP staff		Workers			
	Male	Female	Male	Female	Total 2019	Total 2018
Workforce by age						
Number of employees under 30 years old	72	29	43	1	145	158
Number of employees 30-49 years old	195	50	122	2	369	353
Number of employees 50 years old and over	48	21	99	5	173	176
Workforce by employment relationship						
Share of employees with permanent contracts (% of all employees in the category)	94%	94%	99%	95%	94%	91%
Share of full-time employees (% of all employees in the category)	90%	85%	95%	25%	87%	90%
Total number of days worked by leased workers*					4,086	1,300
New hires						
Number of employees under 30 years old	30	14	39	2	85	89
Number of employees 30-49 years old	30	12	21	1	64	90
Number of employees 50 years old and over	8	1	6	1	16	44
Employee turnover						
Number of employees under 30 years old**	17	12	31	3	63	61
Number of employees 30-49 years old**	26	19	25	5	75	78
Number of employees 50 years old and over**	9	1	8	4	22	48

* Not included among employees presented on other lines

** Including those that resigned, were laid off or dismissed, or retired.

The period's personnel expenses grew by around 10% compared to 2018. The Group's personnel expenses for 2019, including all taxes, totalled 25,323 thousand euros. The figure for 2018 was 22,964 thousand euros. Personnel expenses have grown primarily due to continuing upward pressure on wages, which is intensified by a shortage of skilled and qualified labour. The rise in personnel expenses is also attributable to the Group's stronger financial results, which have increased the amount of performance-related bonuses.

The service fees of the members of the council of Nordecon AS for 2019 amounted to 187 thousand euros and associated social security charges totalled 62 thousand euros (2018: 187 thousand euros and 62 thousand euros respectively).

The service fees of the members of the board of Nordecon AS amounted to 480 thousand euros and associated social security charges totalled 158 thousand euros (2018: 656 thousand euros and 217 thousand euros, respectively). In 2018, the figures included termination benefits of 180 thousand euros paid to a member of the board and associated social security charges of 60 thousand euros.

Labour productivity and labour cost efficiency

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

	2019	2018	2017	2016	2015
Nominal labour productivity, (EUR '000)	340.6	325.4	314.9	268.0	210.9
Change against the comparative period, %	4.7%	3.3%	17.6%	27%	-4.3%
Nominal labour cost efficiency, (EUR)	9.2	9.7	10.1	9.0	8.0
Change against the comparative period, %	-5.0%	-3.8%	12.6%	12.8%	-0.6%

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

The Group's nominal labour productivity increased year on year through revenue growth. Nominal labour cost efficiency, on the other hand, decreased because the rise in personnel expenses exceeded revenue growth.

Future employees and employer reputation

In 2019, our focus remained on retaining existing employees, developing new talent and finding new employees.

The labour market situation requires more than ever a strategic approach to the Group's reputation as an employer and promotion of the construction industry as a whole. Building and construction is taught at a limited number of educational institutions and too few people with relevant knowledge and skills enter the labour market. It is particularly hard to fill positions that require both technical knowledge and interpersonal skills.

We continued work aimed at improving the Group's attractiveness for young people. The efforts were supported by close cooperation between the parent's HR and communication departments. In 2019, we:

- participated in industry-specific student fairs;
- created promotional materials and a video presenting internship and career opportunities at Nordecon AS;
- produced continuously new content for social media channels to inform young people about our activities, people and projects;
- took the internship programme at Nordecon AS to the next level: besides providing daily work we organized joint meetings where we discussed developments at the company and in the construction sector;
- invited students to a doors open day at our new office where we informed them about our activities;
- implemented a new incentive programme, which rewards employees who recommend a candidate that is hired with a referral bonus;
- continued our partnership with Tallinn University of Technology and Tallinn University of Applied Sciences where we gave lectures, awarded scholarships and supported engineering competitions.

In 2019, our Estonian entities had a total of 40 interns (2018: 26) from Tallinn University of Technology, Tallinn University of Applied Sciences, Järva County Vocational Education Centre, the Estonian University of Life Sciences and Tallinn Construction School.

In an attractive employers survey conducted by Instar EBC among the students of higher and vocational education institutions in 2019, Nordecon AS was rated as the seventh most attractive employer by technology students (2018: the fifth) and the second most attractive employer by engineering students.

Further information about collaboration projects of the period is provided in the chapter *Giving back to society*.

Employee engagement and internal communication

Continuous increase of employee satisfaction and engagement is one of our strategic objectives. In 2019, the Group's parent made several changes designed to improve employee satisfaction:

- **New offices for the parent and Tariston.** It was a significant investment in the work environment and we are pleased to see that a modern office solution has given the team new energy. Previously the employees were on six floors, now they are on two. Proximity improves communication, facilitates interaction and unites people. The process began with preparatory activities in January 2019 and ended with relocation in the autumn. We put a lot of effort into internal communication to keep employees informed about the move and listened to their opinions and proposals. We organized online surveys, workshops and a doors open day at the new office prior to its renovation. Employees had a say in the balance between open-plan and enclosed office space and the layout and design of meeting rooms and common areas.
- **Better in-house communication**. We hired a new communication manager at the beginning of the year, which improved internal information flows. In the second quarter, we carried out activities supporting the implementation of the MS Teams software and offered relevant training to provide more flexible options for online meetings. At the end of the third quarter, we launched a new, more dynamic and modern intranet. The new intranet can also be accessed on mobile devices, which makes sharing news about the company and searching contacts significantly easier. We began to organize weekly meetings of the extended management team, which enable us to share information informally and make decisions and agreements that improve our daily work arrangement. It also improves information exchange between the managers and employees of the parent's different departments.
- **Healthy lifestyle programme Healthy Nordecon**. The programme gives people from different teams an opportunity to get to know each other and spend time together. Programme events were organized both in spring and autumn. For example, our people could try less traditional sports (fencing, disc golf and orienteering) and listen to several lectures. The main focus was on health, healthy lifestyles and interpersonal communication.
- **Flexible work arrangement.** In autumn, we started to offer our office staff teleworking opportunities. To facilitate this, we implemented team collaboration software MS Teams. Flexible work arrangement means, among other things, that Nordecon's employees can work from home one day a week. Flexibility is a strong argument in the recruitment process.

In February, we organize our traditional Winter Seminar where we review the previous year's activities, results, accomplishments and challenges and discuss future plans. Every year, the event brings together around 300 employees from across the Group.

Over the years, the employees of the subsidiary NOBE have participated in many exciting sport and other events. In 2019, nearly a third of NOBE's office staff participated in the Marcialonga cross-country ski race in Italy. Before that, they met 2-3 times a week in order to train together. During the company's summer event, some people attended the I Land Sound music festival.

Nordecon's Winter Seminar 2019 at Tallinn University of Technology.

Employee benefits

From 2019, most Group entities' employees receive sickness benefits from the second day (previously from the fourth day). In 2019, the parent company changed the provision of additional vacation, which is based on the length of service: previously entitlement started from the fifth year, now it starts from the second year. Group entities provide days off and support in connection with significant life events. Most Group entities support their employees' sports activities to the extent permitted by law (100 euros a quarter per person) using the SportID environment (around two thirds of the employees use the support).

The Group's employees are active volleyball, football and disc golf players and participate in competitions organized by the Estonian Company Sports Association as well as in the running event Maijooks and Tallinn Marathon.

The Group has signed an accident insurance contract that covers all of the Group's employees and complements liability insurance which is required by law.

Nordecon AS and the subsidiaries Eston Ehitus AS and Tariston AS grant paid leave to employees who have to attend the Defence Forces' reservist training exercises.

Employee satisfaction and engagement

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. In 2019, invitations to participate in the survey were sent to 367 employees from five Group entities (Nordecon AS, Nordecon Betoon OÜ, Eston Ehitus AS, Tariston AS and SweNCN AB). A total of 75% responded (2018: 81%), which is a high participation rate and reflects our employees' interest in the Group's development and their willingness to contribute to it.

For the first time, the TRI*M employee engagement survey was also carried out in Russian and English. Previously, the survey was available in Estonian only but in 2019 it was conducted in three languages: Estonian, English and Russian. This provided more employees with an opportunity to voice their opinions (including the staff of the Swedish subsidiary and the Group's Russian speaking employees).

The Group's employee engagement index increased somewhat compared to 2018. Our overall employee engagement index for 2019 was 66 (2018: 61). The result is equal to Estonia's overall average figure but exceeds the average indicators for the Estonian agriculture, manufacturing and construction sectors.

On average, 91% of our employees would recommend Nordecon Group as an employer. Employees are most satisfied with professional development opportunities, IT solutions, work equipment and empowerment. The greatest development opportunities lie in improving internal cooperation.

Employee development and building management and leadership competencies

The delivery of quality service is underpinned by competence, expertise and skills. Employee professionalism plays a key role in our success. Our focus areas in 2019 included development programmes for managers, professional training courses and employee certification.

The parent continued to organize manager development programmes led by external experts, which had started in 2018:

- a training programme for department heads, which consisted of 10 modules that focused on the key aspects and practical tools of management (self-management, negotiations, performance interviews, management of change, etc.);
- a practical management skills programme for project, site and works managers.

Out of the Group's 15 board members, 11 participated in various management and leadership training courses in 2019 (2018: 10).

The period's average annual training time per person was 21 hours for ETP staff (2018: 35.5 hours) and 4.3 hours for workers (2018: 2.3 hours).

We continued active collaboration with universities in order to support the development of our staff. For example, in partnership with Tallinn University of Technology we provide our employees with more extensive knowledge about heating, ventilation, water, wastewater and cooling systems. We also continued to support our employees' studies at higher education institutions and their participation in professional lecture cycles offered by universities. Many of our employees have professional certificates in more than one field.

We conduct regular annual performance appraisal interviews with our people to identify their development needs and involve them in their development process. During the interviews, we determine employees' training needs, make certification plans, and receive valuable feedback about the organization and its management. At the support units, performance appraisal interviews work well. In 2019, 51% of our ETP personnel had performance appraisal interviews (2018: 48%). Continuous improvement of the system is a near-term priority in the HR department.

Diversity and equal opportunities

The Group respects human rights and relevant policies are set out in Group entities' internal rules and regulations.

In 2019, women and men accounted for 16% and 84% of the Group's personnel (2018: 17% and 83%), respectively, and represented 7% and 93% of Group entities' board members (2018: 13% and 87%), respectively. In terms of age groups, people under 30 accounted for 21% (2018: 23%), people 30-49 years old for 54% (2018: 51%) and people 50 and over for 25% (2018: 26%) of the workforce.

Workforce diversity and its management are part of contemporary management culture. We employ people of different ages, genders and ethnicities as well as people with special needs.

- We have created a working environment which is suitable for people with special needs and, subject to agreement, offer teleworking opportunities.

- We make sure that all our employees receive equal pay for equal work and equal opportunities regardless of gender, ethnicity, language, culture or age.
- Nordecon operates in different countries and our employees are used to working with colleagues with a different cultural background and outlook, which is why we appreciate and respect diversity of opinions and everyone's right to have their own point of view.

In 2019, there were no reported incidents of employee discrimination or violation of human rights at the Group (2018: none).

Occupational health and safety

Construction is one of the most accident-prone sectors, which is why it is important for the employer, the employee, the business partner and the customer that the construction site should be safe and tidy. Ensuring a safe working environment with properly controlled health risks for both our own employees and those of our partners is one of the Group's critical responsibilities.

We deal with the occupational health and safety topic systemically, keeping it under constant scrutiny. A safe working environment assumes the unrelenting commitment of all stakeholders.

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

The Group's parent and subsidiary Nordecon Betoon OÜ follow the requirements of international occupational health and safety management standard OHSAS 18001.

Higher-risk works at Group entities include supporting structure, roof, façade, digging/earth-moving and assembly works. The Group's overall occupational health and safety management has four integrated levels:

- preventing accidents at work and reducing occupational diseases;
- ensuring safety on construction sites;
- ensuring ergonomic, clean and modern work environment and equipment;
- supporting employees' physically and mentally healthy lifestyles.

We transferred safety-related documentation to the Bauhub program in 2018, which has helped us simplify and improve our safety processes. In 2019, we upgraded Bauhub by adding a safety checklist function. The solution, which lists numerous safety-related criteria, simplifies the performance of compulsory weekly site inspections. The purpose of the user-friendly solution is to increase the number of identified hazards, which is a precondition for improving safety on the construction site.

The Group has set up a training program for its site safety coordinators. By focusing more on Group-specific issues, the internal program provides greater value than attendance in public training events.

Work safety statistics

	2019		2018	
	Group's employees	Subcontractors	Group's employees	Subcontractors
Work safety incidents	5	24	2	19
Minor accidents at work	10	6	8	6
Serious accidents at work	2	1	1	2
Fatal accidents at work	0	0	0	0

The total number of sick leave days taken across the Group in 2019 was 3,686 (2018: 3,525), i.e. 5.4 sick leave days per employee on average (2018: 5.1). Sick leave days accounted for 2% of all planned work days in 2019.

The subsidiary Nordecon Betoon OÜ has implemented a safety index, which is based on the TR safety rating methodology developed in Finland. A work safety specialist that visits construction sites registers observations and forwards them to project teams and the board via a smart device. The specialist also monitors the implementation of recommendations for corrective action in real time. Based on the evaluation of different criteria, the safety index displays the current safety rating on a 100% scale, providing a clear overview of the situation.

In Sweden, the subsidiary SweNCN AB uses the mandatory ID06 card, which registers electronically each entry to and exit from the construction site. It provides both the company and the authorities with a continuous overview of people on the construction site. Construction sites are only accessible to registered holders of ID06 cards. This rules out the possibility that on-site staff include persons who do not have permission to work in Sweden or have not received proper work and environmental safety instruction.

Suppliers and subcontractors

Smooth and high-quality execution of construction projects depends largely on the partners involved in the process: material and product suppliers and subcontractors. As a rule, in an average-sized construction project we have over fifty partners. Accordingly, it is essential that they should be recognised operators in their field, meet the expectations of the customer and the Group, and observe set requirements.

In 2019, the Group continued to enhance cooperation with suppliers and subcontractors. Our policy is to create partnerships and work towards a common goal. Honest and transparent communication, early detection and resolution of issues, mutual respect and compliance with agreements are the basis for trust and help prevent and solve problems.

Retaining good business partners is important for the Group. In addition to smooth and supportive collaboration, we try to build permanent relations with our partners by sharing information across the Group so that the same counterparty could be involved in several successive projects.

At construction units, the Group's project manager is responsible for evaluating each supplier and subcontractor when the work or order has been completed. At other units (e.g. the asphalt production and quarrying units) business partners are appraised once a year. Generally, the following aspects are evaluated: observance of deadlines, adherence to safety requirements, compliance with quality criteria and cooperativeness.

Our partnership with Nordecon has lasted for a long time and I am pleased to say that it has been very productive. We know each other's business style and expectations. Communication has always been smooth. The Sammu street housing project was a success for both parties. From time to time something unexpected may come up but mutual commitment, good communication and dedication to the end-result always ensure the desired outcome.

Toomas Böttcher

Project manager of E-Betoonelement AS

Apartment buildings at Sõjakooli 12 and Sammu 6. Nordecon AS

Purchasing and procurement activities

In selecting partners, we review their background, track record, financial position and ability to provide the required resources. In particular, we pay attention to the security of supply and adherence to deadlines. The final selection is made from a shortlist of bidders that meet requirements by assessing the technical solution, quality, performance capabilities and cost competitiveness.

Selection of building materials. The Group is responsible for the quality of materials used on its construction sites. Professional and timely procurement is ensured by the purchasing department of the parent, which coordinates the purchase of products and materials.

Although the main building materials are specified in the project design, in certain cases we can offer customers alternative, better and more efficient solutions based on our experience and expertise. As a rule, building materials and products have to meet stringent requirements. Also, we continuously check all materials and products in order to avoid subsequent risks.

Subcontractors. In its capacity as a general contractor, the Group uses the services of many subcontractors as well as hired labour. It is important for the Group to work with honest, law-abiding and capable partners. We do not cooperate with partners who have been known to engage in dishonest business practices.

As a general contractor, Nordecon has the obligation and opportunity to educate and train smaller construction companies. A good example is the implementation of sector-specific digital solutions, which assumes that subcontractors are willing to develop the competencies of their staff.

Nordecon AS encourages subcontractors to use the Bauhub program, which allows digitising the entire site-related documentation. Subcontractors have given positive feedback to this and over half of them use it. This makes work flows more convenient, quicker and more transparent.

The Group has signed agreements with its subcontractors under which 98% of them have undertaken to comply with occupational health and safety requirements and 95% of them have undertaken to comply with environmental requirements (2018: both rates 97%). The agreements set out the obligations of both parties in ensuring work, fire, electrical and environmental safety.

We did not detect any breaches, risks or negative impacts related to occupational health and safety and environmental aspects in the operation of subcontractors in 2019 that would have resulted in an accident, termination of a partnership or a formal decision to avoid collaboration in the future.

Environmental impacts

Management of the environmental impacts of construction activities

Environmental aspects are becoming increasingly important in construction. This is primarily due to regulatory changes but community awareness of environmental matters and changing social expectations also play a role. This makes it more difficult to take certain steps in the construction business – regulations impose new requirements and communities are active and sensitive to environmental issues.

Relocating a mobile asphalt plant is more complicated than it used to be, partly because obtaining permission may be obstructed by opposition from the local community. It has also become more difficult to obtain permission to open new quarries for the production of bulk material. Besides stricter requirements, there may be opposition from conservationists or local residents. Social attitudes and the growing importance of environmental matters have created a situation where opening a new quarry requires more planning and preparatory work.

Environmental developments affect mainly the design phase but we strive to ensure that our construction teams can implement new, more sustainable solutions throughout the construction process, provided these are economically viable.

The most significant environmental aspects of the Group's activities are as follows:

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

The Group's goal is to avoid risks and negative environmental impacts in those aspects and to keep the surrounding environment clean. We manage the environmental aspects of our activities by:

- identifying and regularly assessing our main environmental impacts and maintaining a relevant register;
- following site- and location-specific action plans;
- complying with applicable laws and regulations and customers' additional requirements;
- applying international environmental management standard ISO 14001 at the Group's larger construction companies (Nordecon AS, Eston Ehitus AS, Tariston AS, Nordecon Betoon OÜ, Eurocon Ukraine TOV);
- using suitable methods, technologies, machinery and materials;
- measuring and metering, and submitting environmental reports.

The Group did not receive any written orders or penalties from supervision authorities for breach of environmental requirements in 2019 (2018: zero cases).

Materials and waste handling

The materials to be used in a construction project and their quantities are generally specified in the design documentation. Nevertheless, before work begins, our designers work with the customer to find more efficient solutions for lowering materials consumption and costs. Efficient use of materials is supported by centralised purchases by the Group's purchasing department.

In quantitative terms, the building materials that our companies use the most include concrete, aggregate (crushed stone, gravel 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 see opportunities for implementing eco-friendly solutions by reusing materials and reducing waste:

- Stabilising and strengthening subsoil that is unsuitable for road construction by adding binders makes the existing ground suitable for road construction and reduces the need for excavating new soil.
- Using asphalt millings as the base material for the asphalt layer of a new road or in surface dressing helps make Estonian roads dust-free. The Group uses 100% of asphalt millings resulting from the removal of old pavements in the construction of new roads. Residual excavated soil that is unsuitable for construction is generally used to build roadside noise barriers.
- The Group's subsidiary Tariston AS was the first in Estonia to implement a mobile washing plant for bulk material. The plant can be used in quarries across Estonia to improve the quality of otherwise unsuitable soil by washing out clay and fine particles so that the soil can be used in road construction. This helps reduce the shortage of materials whose filterability is suitable for road construction and use millions of cubic meters of soil which otherwise would remain unused.
- The Group's parent uses a filler silo that allows recycling residual dust which is a by-product of asphalt production and using it in the production of new asphalt mixes. This has reduced the quantity of waste dust subject to disposal, which used to amount to around 3,000 tonnes per year, more than 10 times.

Construction gives rise to large amounts of waste, which can be reduced by more effective design, procurement and work arrangement. The Group handles and manages waste in accordance with national and local regulations. Waste disposal has become very costly. Therefore, waste sorting increased in 2019.

The Group's activities mainly give rise to the following types of waste: waste stone, soil, concrete and bituminous mixes, mineral waste and mixed construction and demolition waste (in small quantities also wood, metal, paper, plastic and mixed municipal waste and different packages). Sorted waste is handed over to waste handlers. Hazardous waste and polluted soil is handed over to licensed handlers of hazardous waste.

Waste sorting and recycling was one of the focus areas in 2019:

- Effective from 2018, construction sites in Tallinn must have seven different waste containers (for plastic, gypsum, waste metal, waste wood, cardboard and paper, municipal waste, and hazardous waste). In 2019, Nordecon AS systematically inspected all of its construction sites and found the situation to be good.
- Elsewhere in Estonia, municipal waste, hazardous waste, waste wood and waste metal are collected separately, while everything else is collected as mixed construction waste.

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 leakage is smaller.

To avoid environmental 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 internal action plans and measures for managing hazardous incidents. During construction operations we avoid unnecessary damage to vegetation and protect plants.

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

Group entities did not cause any environmental pollution in 2019 (2018: none).

The Group did not do any construction work in protected areas or areas of high biodiversity value in 2019.

Energy consumption and emissions

The Group's largest energy consumers are asphalt concrete plants and quarries, and, to a lesser extent, temporary heating of buildings during construction work. The Group is a general contractor and, thus, does not have direct control over energy consumption in projects performed by its business partners.

To increase energy efficiency in building construction, we try to minimise the use of temporary heating solutions by connecting to the central heating system as soon as possible and using a stationary heating system designed for the completed building. We also prefer energy and fuel efficient construction machinery and equipment.

Although the two asphalt concrete plants that we use operate on sustainable modern technology, they are the sources of our largest environmental impacts and we see them as the main opportunity for further energy savings.

The emissions of the Group's asphalt concrete 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. Pollution limits were not exceeded in 2019. During the year, the plants emitted a total of 4,076 tonnes of carbon dioxide (2018: 4,827 tonnes). The Group's asphalt concrete plants and quarries consumed a total of 1,174 MWh of electricity (2018: 1,305 MWh) and 1,156 thousand litres of different fuels (2018: 1,456 thousand litres). They did not use any renewable energy. Group entities do not measure the energy consumption of other activities on a uniform basis.

The amount of electricity and fuels used and the carbon 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 emissions and will continue to do so in the future. Our carbon intensity ratio reflects that the changes made in 2018 have had a positive environmental impact.

Based on the annual asphalt mix output, the emission figures for the reporting and comparative period are as follows:

	2019	2018
Asphalt concrete produced (tonnes)	178,895	192,147
Carbon emissions (tonnes of CO_2)	4,076	4,827
Carbon intensity ratio (CO_2 emissions in tonnes/asphalt concrete produced in thousands of tonnes)	22.8	25.1

In 2020, the asphalt concrete plant in Harku, near Tallinn, will start using gas energy instead of oil shale-based energy. This will also reduce our environmental pollution charges and make the production process more cost-effective.

Environmental impacts of completed buildings

The importance of environmentally sustainable construction is clearly on the rise. Above all, the trend is supported by the promotion of energy efficiency in Europe and, to a lesser extent, the development of materials reuse and circular economy requirements.

Developments related to the energy efficiency of buildings are driven by the following factors:

- Heating and electricity have become more expensive and building maintenance costs are already a key factor for all developers. Particularly in the case of public buildings but increasingly also in the case of residential buildings. The question of how to heat and cool buildings in the next 30 years is approached mainly from the cost-efficiency perspective.
- From 2020, all buildings for which a building permit is applied for must meet the requirements for nearly zero energy. Public buildings had to comply with those requirements already earlier.
- The share of smart building solutions is growing visibly. This is increasing demand for automation systems which help reduce resource consumption and operating costs. In Estonia, change in this area is driven mainly by the state-owned real estate company Riigi Kinnisvara AS and somewhat less by private sector customers.

We have decided to improve our capacity to implement processes and build environmentally friendly buildings that meet higher than usual requirements in line with the growing expectations of our customers.

In 2019, Group entities delivered 13 buildings that meet higher than usual environmental standards (e.g. the LEED standard, energy classes A and B) (2018: 6 buildings). For example, apartment buildings at Kuuseheki 50 and 52 at Saue and the Kohtla-Järve state upper secondary school have energy class A and apartment buildings at Sõjakooli 12b and 12c, Lesta 10 and Valge 16 in Tallinn and the main building of the Estonian Academy of Security Sciences in Tallinn have energy class B.

The experience we have gained provides an edge in bidding for the construction of buildings pursuing environmental certificates in both the Estonian and the Nordic market.

A new research and academic building of Tallinn University of Technology, which is being constructed by the Group, will be supplied with various sensors and data loggers, installed in the structures to measure indoor climate (temperature, humidity, heat flows and air pressure). Lecture rooms will have automatically adjusting demand-controlled ventilation. Ventilation will be adjusted based on CO_2 concentration and air temperature, which depend on the number of people in the room.

The Group's Swedish subsidiary SweNCN AB began constructing a building in Uppsala in 2019, which has to meet higher than usual local environmental standards. The environmental certification system Miljöbyggnad, created by the Sweden Green Building Council, has 16 criteria for the assessment of electricity and heat efficiency, the sustainability of energy sources, air quality, indoor climate, lighting, thermal performance of the façades, and avoidance of hazardous chemicals and materials. A Gold, Silver or Bronze level certificate may be issued based on the analysis of an independent appraiser. To ensure continuous conformity with established requirements, the analysis is repeated every two years. Around 1,000 buildings in Sweden meet the above requirements.


Apartment buildings at Lesta 10. Nordecon AS

Use of wood as a building material is increasing rapidly

Use of wood in construction is growing fast. In Estonia, demand is driven by Riigi Kinnisvara AS and increasingly supported by the private sector. Nordecon has the expertise and competencies required for the trend. We expect that in the next 15-20 years the construction sector will see a substantial rise in the use of wood and a decrease in the use of concrete.

Use of cross laminated timber (CLT) is a trend created by Estonian architects and designers that promote the use of domestic wood as a construction material. Although CLT is around three times more expensive than reinforced concrete, the outcome is beautiful to look at and wood is definitely more environmentally friendly.

In 2019, the Group began to build several large public buildings where wood is the main building material:

- The three wooden accommodation floors of the Estonian Academy of Security Sciences and the University of Tartu Learning Centre in Narva make it the largest multi-storey public wooden building in Estonia. This is the first time that the main structures of such a large building have been made of CLT components in Estonia.
- The research and academic building of Tallinn University of Technology features glued laminated timber, which is a beautiful traditional building material. The frame is made of CLT and the façade is made of prefabricated wooden structural elements.
- The Kohtla-Järve sports and leisure centre has roof-bearing structures made of glued laminated timber beams sourced from Lithuania. These are beams of the largest cross-section and length used in Estonia in recent years.

Giving back to society

Being a large construction company, the Group has significant influence on local communities and society as a whole.

The Group's strongest social impacts are reflected in well-planned and safe construction processes and quality end-results. However, the Group can improve general welfare by sharing the knowledge and experience of its people and raising topics that require the attention of society. Thus, the Group is an active partner for professional associations in the construction industry, universities and occupational qualification authorities as well as a permanent sponsor of various cooperation projects.

We contribute to the development of a more sustainable construction sector

Our representatives participate actively in the work of professional and business organizations and share their knowledge at public events (seminars, conferences, meetings) and universities. We use these channels to express our opinion, make proposals for drafting and amending laws and regulations, arrange cooperation projects, exchange information and thus contribute to the development of the construction industry.

Gerd Müller, chairman of the board of Nordecon AS, was a speaker at the following construction industry top events in Estonia in 2019: Construction Conference 2020+ organized by the Ministry of Economic Affairs and Communications, Construction Conference organized by the Estonian business daily Äripäev and BIMSummit 2019 which focused on digital construction. He spoke about the Group's vision for the future and the challenges facing the construction industry in a changing environment, including the need to improve the image of construction, to modernise the sector and to implement new technologies.

"When we talk about climate and digital development in construction, we need to know that the carbon footprint of buildings is larger than that of transport, for instance. This means that the decisions we make and the projects we do today must be carefully thought-out – for example, we must renovate increasingly more and learn to build in a manner that is less of a burden for society. A developed democracy means, among other things, that we do not pursue success at all costs but that we care about the wellbeing of everyone and everything, including both people and nature. This means that Estonian companies are on the brink of change."

Gerd Müller at BIMSummit 2019

Group companies belong to the following organizations:

- Estonian Chamber of Commerce and Industry
- Estonian Association of Construction Entrepreneurs
- Estonian Asphalt Pavement Association
- Estonian Concrete Association
- Estonian Water Works Association
- Estonian Human Resource Management Association

Several of the Group's employees belong to professional associations for individuals such as:

- Estonian Association of Civil Engineers
- Association of Estonian Surveyors
- Estonian Mining Society
- Estonian Society for Electrical Power Engineering

Nordecon's employees participate in the following committees and working groups (projects):

- Estonian Qualifications Authority (promoting the engineering profession and further engineering training, development of relevant standards)
- Qualifications committee of the Estonian Association of Civil Engineers
- Qualifications committee of the Estonian Association of Construction Entrepreneurs
- Qualifications committee of vocational schools providing construction education
- Construction industry expert group for OSKA (a system for monitoring and anticipating labour market needs)
- Digital Construction Cluster operating under the Ministry of Economic Affairs and Communications

We promote engineering

Lack of qualified employees is one of the main factors which is slowing down quality work in the construction sector. Accordingly, promoting engineering education so that young people would find their way to construction and new engineers would continue to enter the market is one of the Group's priorities. We participate in career fairs and offer internship opportunities to students. In line with the policy, in 2019 we continued our long-term cooperation with Tallinn University of Technology and Tallinn University of Applied Sciences.

Major collaboration projects in 2019

- Through the Development Foundation of Tallinn University of Technology, Nordecon awards two scholarships: an engineering scholarship and Nordecon's Heinrich Laul scholarship. The latter is awarded to a young professor or researcher working at Tallinn University of Technology who has a doctor's degree in civil engineering.

In 2019, the engineering scholarship was awarded to Kristin Raudla, a student at the Tartu College of Tallinn University of Technology, and Nordecon's Heinrich Laul scholarship was awarded to Virgo Sulakatko, a researcher at Tallinn University of Technology.

"The scholarship has allowed me to reduce my workload, which has enabled me to focus more on my master's thesis. My goal is to graduate with honours (cum laude) and I feel that the scholarship has taken me one step closer to fulfilling my dream. Also, the scholarship has increased my motivation. I am even more determined to work hard and get to the top in my field.

I think there ought to be more companies that motivate students in this way and I fully respect Nordecon for having done this for many years."

Kristin Raudla

Recipient of Nordecon's engineering scholarship 2019

- Nordecon was the main sponsor of BIMSummit 2019, a conference it has supported for several years.
- Together with other construction companies, Nordecon began to support the Peep Sürje Foundation in 2019, which provides a monthly study grant to the 10 best road engineering students of Tallinn University of Technology in order to promote the profession.
- In autumn 2018, the National Road Administration and the Asphalt Pavement Association launched a programme for promoting engineering among secondary school students. In 2019, about 30 schools took part in the programme. As a result, interest in the engineering programmes of Tallinn University of Technology and Tallinn University of Applied Sciences increased in 2019. Nordecon has been represented in the programme by Ain Pähkel, Nordecon AS's director of road construction.
- Every autumn, Nordecon AS's director of road construction Ain Pähkel is a guest lecturer on the Tallinn University of Applied Sciences course Introduction into Road Construction.
- Nordecon supported BUILD IT 2019, a civil engineering conference, fair and competition organized by Tallinn University of Technology, which on this occasion focused on modular housing and automated solutions.

In 2019, we also continued to support Järveküla School in promoting sciences, technology, engineering, and mathematics among middle school pupils and sponsored the Engineering Day of Tallinn University of Applied Sciences.

We support the development of young people through education and sports

During the period, we began to analyse the roles of our different support activities and how they are related to our values and goals. We believe that sport helps develop young people's willpower and determination. Therefore, collaboration with athletes and sports clubs remained a priority in 2019. The key phrases that unite young athletes and the Group are goal-setting, continuous improvement and people working to achieve their dreams.

Nordecon continued to sponsor under previously signed sponsorship agreements:

- Tallinn University of Technology Sports Club and basketball team
- Sailing athlete Karl-Martin Rammo. The main purpose is to help the gifted athlete achieve the best possible results and thereby inspire other young people to do sports and set ambitious goals.

In summer 2019, Nordecon became a major sponsor of speed skater Saskia Alusalu. The Group's support will help one of the fastest women in the world prepare for the 2022 Winter Olympics. The sponsorship agreement is a good example of the Group's goal to support young people in their development, training and aspiration towards their goals.

We also support culture and other areas, which encourage people to be socially active. In 2019, we sponsored:

- Tallinn City Theatre
- Ugala Theatre
- Nõmme Private Education Foundation
- Estonian Defence Forces (the aim of the support agreement with the National Defence Promotion Foundation is to recognise the best officer and the best non-commissioned officer serving in the Estonian Defence Forces)
- Foundation Carolin Illenzeer Fund (the aim of the foundation is to support the children of Estonian servicemen who have been killed or severely injured in the line of duty)

In 2019, the Group's charitable contributions and support payments totalled 290 thousand euros (2018: 298 thousand euros).

Governance

Members of the council and board of Nordecon AS

Council

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

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

An engineer with a diploma in industrial and civil engineering from Tallinn Polytechnic Institute (today: Tallinn University of Technology), Toomas Luman is one of the founders of the Nordecon Group and has been involved in the Group's activities through its board and council for 31 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 24 years he has led the Estonian Chamber of Commerce and Industry and for many years has participated in the work of the professional association of Estonian construction enterprises. As chairman of the Chamber of Commerce, he was actively involved in preparatory activities for Estonia's accession to the EU and the euro area. Before Estonia joined the EU, Toomas Luman acted for four years as chairman of the consultative committee of the head of the Estonian state delegation in EU accession negotiations (the minister of foreign affairs). For ten years, Toomas Luman was chairman of the Board of Governors of Tallinn University of Technology. He is a lieutenant colonel of the Estonian Defence Forces (in reserve) and chairman of the Board of Elders of the Estonian Reserve Officers' Association. He has been awarded the Order of the White Star of the Republic of Estonia (Fifth Class, Third Class and First Class) and he has received various awards from the Estonian Defence Forces, the Estonian National Defence League and other state and non-profit organizations. He has also received state awards from several foreign countries. He has an honorary doctorate degree from Tallinn University of Technology.

Membership in the governing bodies of other organizations: OÜ Luman ja Pojad and its subsidiaries and associates (including AS Nordic Contractors, chairman of the board), Estonian Chamber of Commerce and Industry (chairman of the board), Nõmme Private Education Foundation, Foundation for Promoting National Defence, Estonian Shooting Sport Federation (vice-president), Board of Elders of Estonian Reserve Officers' Association (chairman)

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

Andri Hõbemägi – representative of AS Nordic Contractors

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

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

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

Vello Kahro – representative of AS Nordic Contractors

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

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

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

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

Sandor Liive has graduated from Tallinn University of Technology, Faculty of Economics, with higher education in economics. He has studied management at the IMD, INSEAD and Stanford business schools. From 1992 to 1995, he was on the board of Uus Maa OÜ. From 1995 to 1998 he was head of finance department and chief financial officer and from 1996 to 1998 also a member of the board of Tallinna Sadam AS. From 1998, Sandor Liive 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. Sandor Liive has been the chairman of the audit committee of Nordecon AS since 2015.

Membership in the governing bodies of other organizations: OÜ Gridio (board), OÜ Inventor (board), OÜ FinEst Bay Area (board), PARKI Teadus- ja Tööstuspark OÜ (council), commercial association Tuleva (council), Fermi Energia OÜ (council), Gridio 2.0 OÜ (board)

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

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

An economics graduate of the University of Tartu, Meelis Milder has been involved in the activities of Baltika, one of the best-known companies of the Estonian clothing industry since 1984. For 32 years he was chairman of the board of Baltika. In 2019 he stepped down from executive management and is currently an adviser to Baltika's council. He is a member of the council of Tallinna Kaubamaja Grupp AS, also listed on the Nasdaq Tallinn Stock Exchange. Meelis Milder is a visiting lecturer on the courses of Strategic Management and Organizational Behaviour at the University of Tartu, Faculty of Economics. He has been awarded the Order of the White Star of the Republic of Estonia (Fourth Class), the Order of the Estonian Olympic Committee and the Order of Merit of the Ministry of Foreign Affairs. He is an honorary member of the Estonian Academy of Arts.

Membership in the governing bodies of other organizations: Tallinna Kaubamaja Grupp AS (council), AS Baltika Tailor (chairman of the council), BML Invest OÜ (board), OÜ Kodreste (board), OÜ Maisan (board), Estonian Chamber of Commerce and Industry (board)

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

Board

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

Gerd Müller, chairman of the board

Gerd Müller 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 has 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 organizations: Estonian Association of Construction Entrepreneurs (board), subsidiaries of Nordecon AS (board/council)

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

Priit Luman, member of the board

Priit Luman 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 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* degree in industrial and civil engineering and completed the EMBA programme of Aalto University in 2018. Priit Luman holds the qualification of Chartered Civil Engineer, level 7, awarded by the Estonian Association of Civil Engineers.

Membership in the governing bodies of other organizations: subsidiaries of Nordecon AS (board)

Interests (over 5%) in other companies: none

Maret Tambek, member of the board

Maret Tambek has been working for the Group since 2007 when she joined Nordecon Infra AS the company'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 worked as a specialist for the Estonian Central Bank. Maret graduated from Tallinn Polytechnic Institute (today: Tallinn University of Technology), the department of production management and planning. Maret is a certified public accountant and a member of the Estonian Association of Auditors. On the board where she has been from 1 May 2017 Maret Tambek is responsible for Nordecon AS's financial management and support services.

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

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

Ando Voogma, member of the board

Ando Voogma joined Nordecon AS in 1996. From 2002 to 2005 he was a member of the Group's board and IT and development director. Since 2005 he has been a member of the board of AS Arealis, a real estate company belonging the group of Nordecon AS's parent AS Nordic Contractors. Ando Voogma graduated from Tallinn University of Technology, department of industrial and civil engineering, in 1993. On the board, which he joined on 1 August 2017, Ando Voogma is responsible for Nordecon AS's sales and pre-construction activities.

Membership in the governing bodies of other organizations: none

Interests (over 5%) in other companies: none

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

Ethical business practices

Honest, transparent and ethical conduct and compliance with effective laws and regulations are embedded in the Group's organizational culture. The Group has zero tolerance for conflicts of interest, corrupt behaviour and dishonest competition and this is clearly communicated to both employees and external stakeholders.

Openness and reliability are the Group's values.

Transparency begins from an organization's internal culture and work arrangement. We took vigorous steps in 2019 to facilitate open and clear communication in and between our teams and units. This was facilitated by the management culture and wider implementation of the Bauhub software.

Transparency and integrity. As a listed company, the Group takes particular care to observe the principles of transparency and management quality. To maintain the reputation of a reliable company among customers and business partners, it is important for us to communicate openly and honestly with all stakeholders. Good reputation is especially important in gaining customers' trust in foreign markets. Value-based management and decision-making helps mitigate risks and is the foundation for profitable business.

Honest business activity and responsible tax behaviour are important for the development of the entire construction sector. By upholding those principles, we support and promote fair competition in the construction market.

Anti-corruption activities. The Group defines corruption as the abuse or misuse of power or information entrusted to a person in connection with their office with the intention to acquire a personal benefit, which causes direct damage to the Group's reputation and business activity as well as the construction sector as a whole.

In our relations with customers we follow the unwritten rule that when an external party's proposal seems to involve a conflict of interest or to be corrupt or in contradiction with the law, it must be turned down immediately. The Group does not make gifts to customers or offer any other benefits with a view to exerting influence and thus gaining an unfair advantage.

The Group did not provide financial support to any political party in 2019.

Instructions to employees. Our main goal is to prevent incidents of corruption and questionable situations by informing our employees. We have established rules and procedures, which regulate, among other things, the arrangement of honest and open procurements for construction projects, proper use of the Group's property, keeping of business secrets, handling of inside information, investment and risk management, business administration and document management.

All employees are familiarised with Nordecon's internal rules and regulations, which include expectations for their daily behaviour and state that the Group does not tolerate fraud or other unethical behaviour which damages its reputation or causes consumers, customers or business partners distrust the Group.

Ensuring the regulatory and legal compliance of subcontractors and leased workers that work on our sites is the responsibility of their direct employers, not that of the Group.

Confidentiality. Nordecon AS is a listed company. Therefore, some of our employees are subject to the requirements of the Securities Market Act and the rules of the Tallinn Stock Exchange which govern the handling and disclosure of inside information and the performance of transactions with shares in Nordecon AS. The Group has established its own Inside Information Rules. All employees who have, or are likely to gain, access to inside information or have been entered in the Group's insider list for some other reason have to confirm their compliance with the rules with their signature.

The parent of the Group has access to and may process state secrets. Accordingly, our staff follow, also within project teams, relevant information disclosure restrictions.

Communication. Our communication with customers is personal. We use public communication channels (media, websites, social media, etc.) to communicate information which is expected to be of interest to the public in general, such as information about the commencement and completion of work and projects and other decisions that concern certain stakeholder groups directly. We consider internal communication equally important, subject to the requirements applicable to listed companies.

Complaints. Our intranet includes an anonymous channel that our people can use to report concerns about corruption, breaches of honest and ethical business practices as well as unfair treatment. The anonymous hotline is administered and the content of issues reported is communicated to the audit committee appointed by the council of Nordecon AS by an independent internal audit service provider.

Control. The transparency and compliance of the Group's activities is regularly checked by an independent internal audit service provider. We cooperate openly with authorities that visit our construction sites increasingly more often, including the Tax and Customs Board, the Labour Inspectorate, the Police and Border Guard Board and the Environmental Inspectorate. In projects, where the Group is the general contractor, it provides authorities with access to its subcontractors and their employees but is not accountable for their legal and regulatory compliance.

Breaches. At the date of release of this report, the Group's management is not aware of any incidents of corruption in 2019, including incidents involving its employees or incidents involving its subcontractors, customers or other partners that would have required a response from the Group (2018: none). In 2019, our hotline did not receive any complaints about corruption, unethical or unfair behaviour or non-compliance with laws or regulations that would have required investigation (2018: none).

No Group entities were found guilty of serious breaches of laws or regulations in 2019 (2018: none).

Corporate governance report

Nordecon AS has observed the Corporate Governance Code (CGC) promulgated by the Nasdaq Tallinn Stock Exchange since the flotation of its shares on the Nasdaq Tallinn Stock Exchange on 18 May 2006. This report provides an overview of the governance of Nordecon AS in 2019 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 2019, Nordecon AS observed CGC unless indicated otherwise in this report.

General meeting

Exercise of shareholder rights

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

Shareholders may send questions about the agenda items before the general meeting to the company's registered address or e-mail address that are included in the notice of the general meeting. The company replies to all relevant questions before the general meeting on its website or during the meeting when the relevant agenda item is being discussed. In 2019, shareholders did not ask any questions about the agenda items before the annual general meeting. All questions and answers are available on the website until information about the next general meeting is published.

At the annual general meeting of 2019, the company was represented by the chairman of the board, Gerd Müller, who gave a presentation about the company's financial performance and answered shareholders' questions.

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

In 2019, 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 Nordecon AS took place on 29 May 2019. The meeting was held in the Conference Centre of the Radisson Blu Hotel Olümpia in Tallinn and it started at 10.00 am. The meeting was called by the board of Nordecon AS.

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

The company discloses the reasons for the general meeting and provides explanations of those agenda items that involve a significant change (e.g. amendment of articles of association, extraordinary transactions). The company enables shareholders to review information about the questions shareholders have asked about the general meeting and the agenda items. Concurrently with complying with legal requirements to calling a general meeting, the board publishes on the company's website all information relevant to the agenda that has been provided to it or is otherwise available and is required for making decisions at the general meeting.

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

Information published in respect of a candidate for a member of the council includes information 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 2019, Nordecon AS complied with the subsections of section 1.2 of CGC that relate to calling a general meeting and information to be published.

Conduct of a general meeting

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

As a rule, a general meeting is attended by all members of the board, the chairman of the council and, where possible, members of the council and at least one of the auditors. A general meeting is also attended by a candidate for a member of the council if the candidate has not been a member of the council before and the auditor candidate. In 2019, the annual general meeting was attended by chairman of the board Gerd Müller, chairman of the council Toomas Luman and member of the council Andri Hõbemägi.

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

In 2019, Nordecon AS complied with the subsections of section 1.3 of CGC, except for 1.3.3 and 1.3.2. The company did not consider it practicable to make the annual general meeting available to observers and participants via the Internet. Members of the board Priit Luman, Maret Tambek and Ando Voogma and the auditor of Nordecon AS did not attend the annual general meeting.

Board

Responsibilities of the board

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

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

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

The board and council of Nordecon AS exchanged information in 2019 in accordance with relevant requirements. The board informed the council of the Group's performance and financial position on a regular basis. In 2019, Nordecon AS complied with the subsections of section 2.1 of CGC that relate to responsibilities of the board.

Composition and remuneration of the board

Composition of the board

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

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

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

In 2019, the board had the following members:

Name	Position/area of responsibility	Beginning of term of office	End of term of office
Gerd Müller	**Chairman of the Board** General management of Nordecon AS and the Group	8 January 2018	6 January 2021
Priit Luman	**Member of the Board** Management of the Group's foreign operations	1 May 2017	30 April 2023
Maret Tambek	**Member of the Board** Management of the financial and support services functions of Nordecon AS	1 May 2017	30 April 2023
Ando Voogma	**Member of the Board** Management of the sales and pre-construction operations of Nordecon AS	1 August 2017	30 April 2023

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 (see also note 37):

- 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 or the EBITDA for a market/entity of the Group (operating profit plus amortisation and depreciation expense) before the effect of the performance-related pay of members of the board. Each targeted EBITDA level is assigned a coefficient. Performance-related pay is calculated by multiplying the service fee with the coefficient.

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

- Benefits for observing the prohibition on competition after the expiry of the service contract (for a member of the board 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.

- Termination 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 termination benefits if the service contract is terminated at the board member's request, the board member is removed due to breach of the law, the board member breaches the service contract, or the board member's activities have caused direct damage to the company. Nor are any termination benefits paid when the parties agree to extend a board member's service contract for another term of office.

The annual general meeting which convened in 2018 amended the share option plan for members of the board. In the framework of the share option plan, the chairman of the board may acquire up to 200,000 shares and each member of the board may acquire up to 129,500 shares in Nordecon AS. An option may be exercised when three years have passed since the signature of the option agreement but not before the company's general meeting has approved the company's annual report for 2020 in accordance with the procedure specified in the option agreement and the terms and conditions of the option plan. The share options may not be transferred. Exercise of options by members of the board is linked to achievement of the Group's EBITDA target for 2020 (from 6,083 thousand euros to 12,167 thousand euros).

The service fees of the members of the board of Nordecon AS amounted to 480 thousand euros and associated social security charges totalled 158 thousand euros in 2019 (2018: 656 thousand euros and 217 thousand euros, respectively).

In 2019, Nordecon AS complied with the subsections of section 2.2 of CGC, except for 2.2.7, that relate to the composition and remuneration of the board. The company does not disclose the individual remuneration of each member of the board because it believes the information has little significance and is highly sensitive in an environment of stiff competition.

Conflicts of interest

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

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

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

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

A member of the board or an employee may not demand or 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 2019, 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 organized 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, organizes 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 2019. In addition, three times resolutions were adopted electronically. All council members participated in all of the meetings.

In 2019, 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.

In 2019, the council had the following members:

Name	Position	Beginning of term of office	End of term of office
Toomas Luman	Chairman of the Council, representative of AS Nordic Contractors	9 January 2006	20 May 2020
Andri Hõbemägi	Vice-chairman of the Council, representative of AS Nordic Contractors	25 May 2013	24 May 2023
Vello Kahro	Member of the Council, representative of AS Nordic Contractors	20 May 2015	20 May 2020
Sandor Liive	Member of the Council, independent	20 May 2015	20 May 2020
Meelis Milder	Member of the Council, independent	9 January 2006	20 May 2020

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

According to a resolution adopted by the general meeting on 24 May 2017, from 1 July 2017 the chairman's basic monthly service fee is 9,000 euros, the vice-chairman's basic monthly service fee is 3,000 euros and the basic monthly service fee of other council members is 1,200 euros. In addition, based on a resolution adopted by the general meeting on 28 May 2012, the company has created a performance-related pay system for the chairman and vice-chairman of the council. Performance-related pay is linked to achievement of Nordecon AS's targets for the financial year and calculated and paid on the same basis as the performance-related pay of the members of the board of Nordecon AS. The performance-related pay of the chairman of the council and the vice-chairman of the council may not exceed two thirds and one third, respectively, of the performance-related pay calculated for a member of the board.

The service fees of the members of the council of Nordecon AS amounted to 187 thousand euros and associated social security charges totalled 62 thousand euros in 2019 (2018: 187 thousand euros and 62 thousand euros, respectively).

In 2019, 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 or use for personal gain any business offerings made to the company.

In 2019, 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 2019, 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 assignment of certain management responsibilities is not outlined in the articles of association, the provisions of the Estonian Commercial Code are observed.

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

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

In 2019, 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 2019 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 endeavours 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 2019, the company's threshold for notifying of significant construction contracts was 3.2 million euros. Nordecon AS made 39 stock exchange announcements in 2019, which were released concurrently via the information system of the Nasdaq Tallinn Stock Exchange and the company's website.

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

Meetings with investors and financial analysts

Meetings with investors are organized 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 2019, Nordecon AS complied with chapter 5 of CGC that relates to disclosure of information, except for the following sections:

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

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

Financial reporting and auditing

Financial reporting

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

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

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

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

In 2019, 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.

Altogether, the fees Nordecon AS paid to the auditors in 2019 totalled 41 thousand euros.

The auditor provided the audit committee formed by the council with a written memorandum on the company's audit of 2019, the auditor's findings and other significant matters that were discussed with the board.

In 2019, 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 307,567,280 Estonian kroons to 19,657,131.9 euros. Concurrently with the conversion, the company adopted shares with no par value.

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

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

Reduction of share capital

On 29 May 2019 the annual general meeting of Nordecon AS adopted a resolution on the reduction of the company's share capital and on 3 September 2019 the reduction was registered at the Commercial Registry.

Based on the decision of the annual general meeting, the company's share capital was reduced by 1,942,529 euros, from 16,321,015 euros to 14,378,486 euros. Share capital was reduced by reducing the book value of the shares by 0.06 euros per share. The number of the company's shares remained the same and the book value of the shares decreased in proportion to the reduction of share capital. After reduction, the company's share capital amounts to 14,378,486 euros, consisting of 32,375,483 shares with no par value.

The reduction of share capital by 0.06 euros per share was paid out to shareholders on 18 December 2019. No payments were made to Nordecon AS for own shares held by the company.

Summarised trading results

Share trading history

Price (EUR)	2019	2018	2017	2016	2015
Open	0.91	1.25	1.34	1.03	1.02
High	1.09	1.29	1.46	1.35	1.14
Average	0.99	1.10	1.30	1.14	1.05
Low	0.89	0.89	1.20	0.98	0.98
Last closing price	1.03	0.89	1.23	1.33	1.05
Traded volume (number of securities traded)	3,254,930	1,707,399	1,977,849	1,162,430	1,656,376
Turnover, in EUR millions	3.24	1.93	2.60	1.3	1.71
Listed volume (31 December), in thousands	32,375	32,375	32,375	32,375	32,375
Market capitalisation (31 December), in EUR millions	33.35	28.81	39.82	43.06	33.99

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

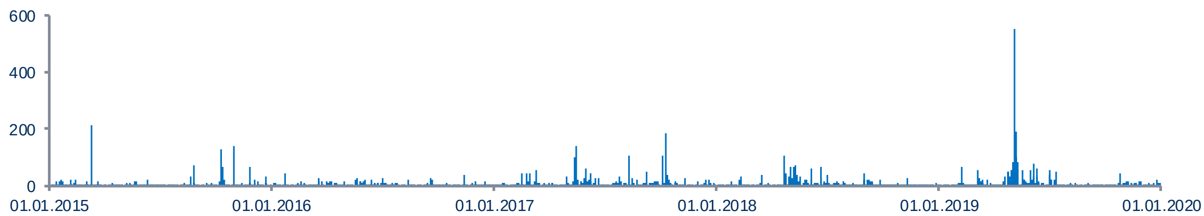
Ratio	2019	2018	2017	2016	2015
P/E	9.6	8.3	27.4	13.3	180.4
P/B	1.1	0.9	1.1	1.1	0.9

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)

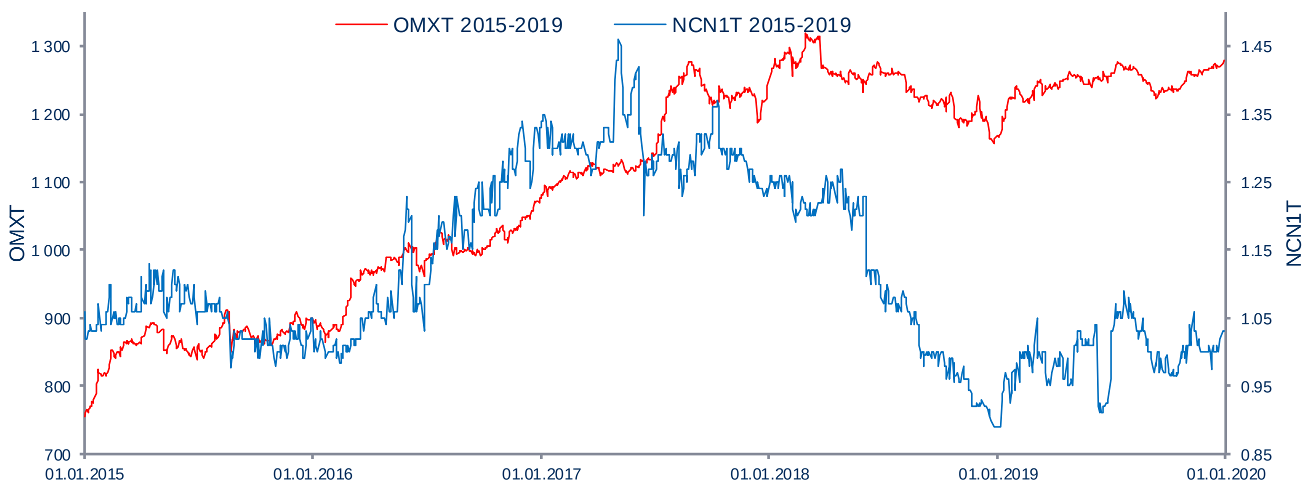
Movements in the price and turnover of the Nordecon AS share in 2015-2019

Movements in share price in euros

Daily turnover in thousands of euros



Movement of the share price compared to the OMX Tallinn index in 2015-2019



Index/equity	1 January 2015*	31 December 2019	+/-%
OMX Tallinn	775.05	1,279.7	69.49%
NCN1T	EUR 1.06	EUR 1.03	-2.83%

* Closing price on the Nasdaq Tallinn Stock Exchange at 31 December 2014.

Shareholder structure

Largest shareholders in Nordecon AS at 31 December 2019

Shareholder	Number of shares	Ownership interest (%)
AS Nordic Contractors	16,507,464	50.99
Luksusjaht AS	4,211,522	13.04
Rondam AS	1,000,000	3.09
SEB Pank AS clients	710,000	2.19
ASM Investments OÜ	506,000	1.60
Mati Kalme	400,000	1.24
Midas Invest OÜ	385,000	1.19
State Street Bank and Trust Omnibus Account A Fund	368,656	1.14
Lembit Talpsepp	381,751	0.98
SEB Elu- ja Pensionikindlustus AS	255,000	0.79

Shareholder structure of Nordecon AS at 31 December 2019

	Number of shareholders	Ownership interest (%)
Shareholders with interest exceeding 5%	2	64.03
Shareholders with interest from 1% to 5%	6	10.41
Shareholders with interest below 1%	2,072	22.94
Holder of own (treasury) shares	1	2.62
Total	**2,081**	**100**

Shareholder structure by shareholder category at 31 December 2019

Shareholders by business line and legal form	Number of shares	Ownership interest (%)
Companies	25,018,167	77.28
Individuals	5,334,822	16.47
Financial institutions (banks, investment funds)	1,767,494	5.46
Insurance companies	255,000	0.79
Total	**32,375,483**	**100**

Shares controlled by members of the council of Nordecon AS at 31 December 2019

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

* Companies controlled by the individual

Shares controlled by members of the board of Nordecon AS at 31 December 2019

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
Ando Voogma	Member of the Board	0	0.00
Total		**7,000**	**0.02**

Share option plan

The annual general meeting that convened on 27 May 2014 approved a share option plan aimed at motivating the executive management of Nordecon AS by including them among the company's shareholders to ensure consistency in the company's management and improvement of the company's performance, and enable the executive management to benefit from their contribution to growth in the value of the company's share. Under the option plan, the company granted options for acquiring up to 1,618,755 shares in Nordecon AS. An option could be exercised when three years had passed since the signature of the option agreement but not before the general meeting had approved the company's annual report for 2016.

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

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

The annual general meeting which convened on 23 May 2018 adopted some amendments to the option plan which grant Nordecon AS's chairman of the board the right to acquire up to 200,000 shares and each member of the board the right to acquire up to 129,500 shares in Nordecon AS. An option may be exercised when three years have passed since the signature of the option agreement but not before the general meeting has approved the company's annual report for 2020. Exercise of the options is linked to the achievement of the Group's EBITDA target for 2020 (from 6,083 thousand euros to 12,167 thousand euros).
At 31 December 2019, options for the acquisition of 229,857 shares had been exercised, options for the acquisition of 800,398 shares had expired and options for the acquisition of 588,500 shares were still exercisable.

Restrictions related to shares

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

Dividend policy

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

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

Dividends distributed by Nordecon AS in previous years

Year of pay-out	Total dividends paid EUR '000	Number of shares, in thousands	Dividend per share EUR	Dividend pay-out ratio *
2015	923	30,757	0.03	47.2%
2016	923	30,757	0.03	515.6%
2017	1,384	30,913	0.045	45.5%
2018	1,859	31,529	0.06	133.9%
2019	1,891	31,529	0.06	55.9%

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

In 2019, Nordecon AS reduced share capital by 1,943 thousand euros (0.06 euros per share). The reduction of share capital was paid out to shareholders in December 2019 (see also the chapter *Share and shareholders*).

Authors of the photos used in the directors' report:
Eigo Kärdi, Harry Auväärt, Kristian Kruuser, Maris Tomba, Oleg Hartšenko.

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	13 April 2020
Priit Luman	Member of the Board	13 April 2020
Maret Tambek	Member of the Board	13 April 2020
Ando Voogma	Member of the Board	13 April 2020

Consolidated financial statements

Consolidated statement of financial position

EUR '000 As at 31 December	Note	2019	2018
ASSETS			
Current assets			
Cash and cash equivalents	8	7,032	7,678
Trade and other receivables	9	37,563	31,627
Prepayments	10	1,813	1,383
Inventories	11	21,142	20,444
Total current assets		**67,550**	**61,132**
Non-current assets			
Investments in equity-accounted investees	12	2,369	2,266
Other investments		26	26
Trade and other receivables	9	8,435	8,225
Investment property	13	5,530	5,526
Property, plant and equipment	14	19,002	12,288
Intangible assets	15	14,736	14,674
Total non-current assets		**50,098**	**43,005**
TOTAL ASSETS		**117,648**	**104,137**
LIABILITIES			
Current liabilities			
Borrowings	16	11,058	9,374
Trade payables	18	40,730	34,954
Other payables	19	7,954	5,187
Deferred income	20	6,391	3,932
Provisions	21	716	1,013
Total current liabilities		**66,849**	**54,460**
Non-current liabilities			
Borrowings	16	16,326	14,830
Trade payables	18	98	98
Other payables	19	177	71
Provisions	21	1,425	969
Total non-current liabilities		**18,026**	**15,968**
TOTAL LIABILITIES		**84,875**	**70,428**
EQUITY			
Share capital	22	14,379	16,321
Own (treasury) shares		-660	-693
Share premium		635	618
Statutory capital reserve	22	2,554	2,554
Translation reserve	22	1,169	1,992
Retained earnings		12,383	10,896
Total equity attributable to owners of the parent		**30,460**	**31,688**
Non-controlling interests		**2,313**	**2,021**
TOTAL EQUITY		**32,773**	**33,709**
TOTAL LIABILITIES AND EQUITY		**117,648**	**104,137**

The notes on pages 75-134 are an integral part of these consolidated financial statements.

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Consolidated statement of comprehensive income

EUR '000	Note	2019	2018
Revenue	25, 28	234,071	223,496
Cost of sales	29	-222,302	-213,463
Gross profit		**11,769**	**10,033**
Marketing and distribution expenses		-784	-626
Administrative expenses	30	-6,837	-6,725
Other operating income	31	315	1,471
Other operating expenses	31	-193	-122
Operating profit		**4,270**	**4,031**
Finance income	32	1,277	431
Finance costs	32	-1,219	-909
Net finance income/costs		**58**	**-478**
Share of profit of equity-accounted investees	12	585	835
Profit before income tax		**4,913**	**4,388**
Income tax expense	33	-764	-567
Profit for the period		**4,149**	**3,821**
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Exchange differences on translating foreign operations		-823	-3
Total other comprehensive expense		**-823**	**-3**
TOTAL COMPREHENSIVE INCOME		**3,326**	**3,818**
Profit attributable to:			
- Owners of the parent	23	3,378	3,381
- Non-controlling interests		771	440
Profit for the period		**4,149**	**3,821**
Total comprehensive income attributable to:			
- Owners of the parent		2,555	3,378
- Non-controlling interests		771	440
Total comprehensive income for the period		**3,326**	**3,818**
Earnings per share attributable to owners of the parent:			
Basic earnings per share (EUR)	23	0.11	0.11
Diluted earnings per share (EUR)	23	0.11	0.11

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Consolidated statement of cash flows

EUR '000	Note	2019	2018
Cash flows from operating activities			
Cash receipts from customers[1]		277,941	269,292
Cash paid to suppliers[2]		-239,873	-232,669
VAT paid		-6,816	-8,269
Cash paid to and for employees		-22,741	-23,066
Income tax paid		-508	-596
Net cash from operating activities		**8,003**	**4,692**
Cash flows from investing activities			
Paid on acquisition of property, plant and equipment		-594	-534
Paid on acquisition of intangible assets		0	0
Proceeds from sale of property, plant and equipment		377	1,784
Paid on acquisition of investment property	13	0	-88
Proceeds from sale of investment property	13	0	1,300
Loans provided		-74	-12
Repayment of loans provided		13	14
Dividends received		489	460
Interest received		9	10
Net cash from investing activities		**220**	**2,934**
Cash flows from financing activities			
Proceeds from loans received	16	3,705	2,898
Repayment of loans received	16	-4,032	-4,671
Payments of the principal portion of lease liabilities	16, 17	-3,276	-1,879
Interest paid		-1,004	-737
Dividends paid		-2,360	-2,627
Reduction of share capital		-1,892	-1,847
Other payments		-4	0
Net cash used in financing activities		**-8,863**	**-8,863**
Net cash flow		**-638**	**-1,237**
Cash and cash equivalents at beginning of period		**7,678**	**8,915**
Effect of movements in foreign exchange rates		-8	0
Decrease in cash and cash equivalents		-638	-1,237
Cash and cash equivalents at end of period		**7,032**	**7,678**

[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 75-134 are an integral part of these consolidated financial statements.

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Consolidated statement of changes in equity

EUR '000	Share capital	Treasury shares	Capital reserve	Share premium	Translation reserve	Retained earnings	Total	Non-controlling interests	Total
	Equity attributable to owners of the parent								
Balance at 31 December 2017	**18,263**	**-1,349**	**2,554**	**589**	**1,995**	**11,086**	**33,138**	**1,351**	**34,489**
Profit for the period	0	0	0	0	0	3,381	3,381	440	3,821
Other comprehensive expense	0	0	0	0	-3	0	-4	0	-4
Transactions with non-controlling interests	0	530	0	0	0	-1,746	-1,216	998	-218
Transactions with owners									
Exercise of share options	0	71	0	0	0	0	71	0	71
Dividend distribution	0	0	0	0	0	-1,859	-1,859	-768	-2,627
Cancellation of dividends	0	0	0	0	0	34	34	0	34
Reduction of share capital	-1,942	55	0	29	0	0	-1,858	0	-1,858
Total transactions with owners	**-1,942**	**126**	**0**	**29**	**0**	**-1,825**	**-3,612**	**-768**	**-4,380**
Balance at 31 December 2018	**16,321**	**-693**	**2,554**	**618**	**1,992**	**10,896**	**31,688**	**2,021**	**33,709**
Profit for the period	0	0	0	0	0	3,378	3,378	771	4,149
Other comprehensive expense	0	0	0	0	-823	0	-823	0	-823
Transactions with owners									
Dividend distribution	0	0	0	0	0	-1,891	-1,891	-479	-2,370
Reduction of share capital	-1,942	33	0	17	0	0	-1,892	0	-1,892
Total transactions with owners	**-1,942**	**33**	**0**	**17**	**0**	**-1,891**	**-3,783**	**-479**	**-4,262**
Balance at 31 December 2019	**14,379**	**-660**	**2,554**	**635**	**1,169**	**12,383**	**30,460**	**2,313**	**32,773**

Further information about share capital and other components of equity is provided in note 22.

The notes on pages 75-134 are an integral part of these consolidated financial statements.

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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 10133, Estonia. The company's controlling shareholder and the party controlling Nordecon Group is AS Nordic Contractors that holds 50.99% of the shares in Nordecon AS. Through AS Nordic Contractors, Nordecon Group's ultimate controlling party is Toomas Luman. The Nordecon AS shares have been listed on the Nasdaq 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 2019 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 Nordecon AS Group as at and for the year ended 31 December 2019 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 39 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 in the financial statements.

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

The board authorised these consolidated financial statements for issue on 13 April 2020.

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 5.

Functional and presentation currency

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

Use of significant accounting estimates and judgements

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

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

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In 2019, the Group conducted most of its business in Estonia. Estonia's gross domestic product (GDP) grew by 4.3% (2018: 3.9%). GDP growth was driven by information and communication followed by wholesale and retail trade and professional, scientific and technical services. In 2019, Estonian construction companies' total output in Estonia and abroad (combined, in current prices) was approximately 3.2 billion euros, 3% up on 2018. Building construction grew by 8% while infrastructure construction decreased by 6% year on year. Construction volumes in Estonia remained at the same level as in 2018. The local construction market was influenced the most by a decrease in infrastructure construction, whereas building construction grew slightly. The construction of new dwellings has been growing since 2012. In 2019, 7,014 new dwellings received a permit of use, a rise of 542 on the prior year (2018: 6,470).

In 2020, public investments that influence the construction market will not increase considerably compared to 2019.

Thus, 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 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 26) (E)

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

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

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

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

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

The Group is 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 explanation of the real right contract). The Group estimates the carrying amounts of unsold apartments carried in inventories by comparing the carrying amounts to the actual sales prices of similar apartments sold shortly before or after the reporting date.

On estimating the values of properties (plots of land) acquired for development, the Group relies on the calculations of its own real estate specialists. Most of the properties have a detailed design plan or proceedings for the adoption of a detailed design plan have been started. The properties are located in or near Estonia's four larger regional hubs (Tallinn, Tartu, Pärnu and Narva). Although in 2019 the number and total value of transactions in the real estate market increased, it is still not possible to measure the sales prices (market values) of properties (plots) without buildings that are in the initial stage of development reliably using the sales comparison method. This is because the number of transactions in the regions where the Group's properties are located (except Tallinn) is too small.

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Since it was not possible to determine the value of properties acquired for development using the sales comparison method, the Group measured their values using the residual value method. The residual value method assumes making more estimates than the sales comparison method. Under the residual value method, the value of a property is the sum that remains from 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 were performed by the Group's real estate specialists with the assistance of independent experts separately for each property, taking into account the opportunities and specific features of the detailed design plan or the planned building rights (including the region and location of the property). Based on the valuation results, there was no need to write the properties down. A sensitivity analysis of the valuations is presented in the notes to the consolidated financial statements.

Classification (J) and measurement (E) of investment properties (notes 5 and 13)

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 a 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. In the period under review, the number of sales transactions involving plots without buildings in the above regions was insufficient for valuing the properties using the sales comparison method. Thus, the Group estimated the values of the properties using the discounted cash flow method. The estimates were made separately for each property, taking into account the opportunities and specific features of the detailed design plan or planned building rights (including the location of the property). Using the above estimates, the fair value of the investment properties located in Pärnu was measured as at the reporting date. The valuation did not indicate a need for adjusting the fair value of the properties. The fair value of the investment property in Ukraine was also measured as at the reporting date and, as a result, its carrying amount was increased by 4 thousand euros. A sensitivity analysis of the valuations is presented in the notes to the consolidated financial statements.

Provisions and contingent liabilities (notes 21 and 35) (E)

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

The Group makes provisions for warranty expenses. Provisions are recognised after the completion of construction activity and the delivery of the project to the customer. Warranty periods generally extend from 2 to 3 years in general construction and civil engineering and from 2 to 5 years in road construction. The amount of post-construction warranty liabilities is estimated based on historical data on actual warranty expenses, which generally extend to up to 0.4% of total contract costs. Depending on the complexity of the project, the Group may recognise a warranty provision that exceeds historical data.

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

Measurement of goodwill (note 15) (E)

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

The projected net cash flows, which include both working capital investments and capital expenditures incurred to maintain assets in the state they are in at the time the estimate is made, are discounted at the weighted average cost of capital (both debt and equity capital). The net operating cash flows of CGUs do not depend on the capital structure of the specific entity. Therefore, in determining the discount rate, the proportions of debt and equity capital have been identified based on the industry's average ratios in the Damodaran database. The discount rates used for estimating the value in use of the Group's CGUs range from 9.5% to 10.4%.

Measurement of loans provided (note 9) (E)

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

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

Accounting for deferred tax related to investments in Estonian subsidiaries and associates (J)

In 2018, a new income tax system entered into force in Latvia. The system is similar to the Estonian one but upon its application Latvian entities began to account for deferred tax in their consolidated IFRS financial statements differently from the Estonian approach. In accordance with the Latvian treatment, deferred tax for investments in subsidiaries, associates, joint ventures and branches must be recognised even if the investments are located in jurisdictions where corporate income tax is to be paid on the distribution of profit (for example Estonia and Latvia), except to the extent that the group is able to control the timing of the reversal of the taxable temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future. In line with the treatment applied in Estonia to date, deferred tax liabilities are not recognised in such cases.

There is no consensus yet in Estonia as to which treatment is correct. The Ministry of Finance has asked the IFRS Interpretation Committee (IFRIC) to express an opinion on the correct interpretation of IAS 12 *Income Taxes*. IFRIC reviewed the matter at the beginning of March and made a preliminary decision on 13 March 2020 according to which the Latvian treatment is correct and under the Estonian income tax system deferred tax on investments ought to be recognised. IFRIC's preliminary decision is exposed to public commentary until 13 May 2020 and most likely IFRIC will reach the final decision at the meeting after that (probably in June).

The Group's management has decided to continue to account for deferred tax liabilities related to investments in subsidiaries, associates and branches using the policy applied to date. In line with the latter, in jurisdictions where corporate income tax is to be paid on the distribution of profit (as in Estonia and Latvia), a deferred tax liability is always zero because deferred tax liabilities arising on investments located in those jurisdictions are measured at the zero rate applicable to undistributed profits, as provided in paragraph 52A of IAS 12.

Taxable temporary differences for which deferred tax liabilities have not been recognised are disclosed in note 33. If the Group changed the accounting policy and recognised deferred tax on these investments, the liability to be recognised as at 31 December 2019 would amount to 326 thousand euros.

NOTE 3. New standards, amendments and interpretations

New standards, amendments and interpretations effective for the reporting period

From 1 January 2019 the Group began to apply IFRS 16 *Leases*.

The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the commencement of the lease and, if lease payments are made over time, in obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases into operating and finance leases that was provided in IAS 17 and, instead, introduces a single accounting model for lessees. Lessees are required to recognise: (a) assets and liabilities for all leases with a term of more than twelve months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the income statement. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases and to account for those two types of leases differently.

The new standard, when initially applied, requires the recognition of assets and liabilities related to operating leases under which the Group is a lessee in the statement of financial position. The effect of the initial application of the standard is as follows (the table reflects the effect of operating leases only):

Effect of changes on the consolidated statement of comprehensive income

EUR '000	Effect of changes 2019
Cost of sales (depreciation expense)	-895

Effect of changes on the consolidated statement of financial position

EUR '000	Effect of changes at 1 January 2019
Lease payments discounted at the incremental borrowing rate	4,260
Minimum amount of future operating lease payments under non-cancellable leases as at 31 December 2018	6,280
Short-term leases and leases of low-value assets for which lease liabilities are not recognised	-2,020
Finance lease liabilities at 31 December 2018	5,409
Lease liabilities at 31 December 2018	9,669

New standards, amendments and interpretations not yet effective

As at 31 December 2019, some new International Financial Reporting Standards, amendments to standards and interpretations had been published and adopted by the EU 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:

Definition of Material – Amendments to IAS 1 and IAS 8

(effective for annual periods beginning on or after 1 January 2020; not yet adopted by the European Union).

The amendments clarify the definition of 'material' and how it should be applied by including in the definition guidance that until now has featured elsewhere in IFRS standards. In addition, the explanations accompanying the definition have been improved. The amendments ensure that the definition of 'material' is consistent across all IFRS standards.

Information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements. According to the Group's assessment, the amendments will not have any significant impact on its financial statements.

Amendments to the Conceptual Framework for Financial Reporting

(effective for annual periods beginning on or after 1 January 2020)

The revised Conceptual Framework includes a new chapter on measurement; guidance on reporting financial performance; improved definitions and guidance (such as the definition of 'liability'), and clarifications in important areas, such as the roles of stewardship, prudence and measurement uncertainty in financial reporting. According to the Group's assessment, the amendments will not have any significant impact on its financial statements.

Definition of a Business – Amendments to IFRS 3

(effective for annual periods beginning on or after 1 January 2020; not yet adopted by the European Union).

The amendments revise the definition of a business. A business must have inputs and a substantive process that together significantly contribute to the ability to create outputs. The new guidance provides a framework for evaluating when an input and a substantive process are present, including for early-stage companies that have not generated outputs. An organized workforce should be present as a condition for classification as a business if there are no outputs. The definition of the term 'outputs' is narrowed to focus on goods and services provided to customers, generating investment income and other income, and it excludes returns in the form of lower costs and other economic benefits. It is also no longer necessary to assess whether market participants are capable of replacing missing elements or integrating the acquired activities and assets. An entity can apply a 'concentration test'. The assets acquired would not represent a business if substantially all of the fair value of gross assets acquired is concentrated in a single asset (or a group of similar assets). According to the Group's assessment, the amendments will not have any significant impact on its financial statements.

Other new standards, amendments, interpretations and annual improvements to IFRS are not expected to have a significant impact on the Group's financial statements.

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 cash-generating units and it is not amortised. Instead, the CGU is tested for impairment at each reporting date. Subsequent to initial recognition, goodwill is measured at cost less any accumulated impairment losses (see the policy *Impairment of assets*).

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

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Business combinations of entities under common control

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

Subsidiaries

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

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 over the financial and operating policies. Significant influence is presumed to exist when the Group holds, directly or indirectly, through subsidiaries, 20% to 50% of the voting power of the investee.

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 an equity-accounted 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 intra-Group transactions, balances and unrealised profits and losses are eliminated.

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

Translation of the financial statements of foreign subsidiaries

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

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

	Date	Swedish krona (SEK)	Ukrainian hryvnia (UAH)*
1 euro (EUR)	31 December 2019	10.4468	26.4220
1 euro (EUR)	31 December 2018	10.2548	31.7141

* 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.

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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 expenses*, 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. The effective interest rate is the rate that discounts the estimated future cash flows (including all significant transaction costs, premiums and discounts) of an investment to the net carrying amount of that investment.

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

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are not cash or cash equivalents and have not been designated to any other category of financial assets. When an available-for-sale financial asset is recognised initially, it is measured at its fair value plus any directly attributable transaction charges.

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Subsequent to initial recognition, available-for-sale financial assets are measured at their fair value unless fair value cannot be measured reliably. When fair value cannot be measured reliably, the cost method is applied.

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

Cash and cash equivalents

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

Financial liabilities

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

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

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

Factoring

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

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

The Group also uses reverse factoring. Under the Group's 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 the reverse factoring arrangement are recognised in trade payables until the invoice is settled. The costs arising from the use of reverse factoring are covered by subcontractors. The Group does not incur any additional income or expenses from reverse factoring.

Inventories

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

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

Finished goods include items of real estate (e.g. apartments) which have been completed as a result of real estate development and are available for sale; such items are measured at the costs incurred in achieving their completion.

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

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

Investment property

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

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

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

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

Property, plant and equipment

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

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

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

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

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

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

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

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

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

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

Goodwill

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

After initial recognition, goodwill is measured at cost less any 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.

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

Impairment of assets

Measurement of fair value is described in note 5.

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

Financial assets

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

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

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

Non-financial assets

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

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

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

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

Reversal of an impairment loss

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

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

Provisions and contingent liabilities

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

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

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

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

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

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

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

Short-term employee benefits

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

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

Liabilities under profit-sharing and bonus plans result from employee service and not from transactions with the company's 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 a reliable estimate can be made of the amount of the obligation.

Share-based payments

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

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

Derivatives

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

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

Leases

Accounting policies from 1 January 2019

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. Assets and liabilities arising from a lease are measured in the statement of financial position at the present value of the lease payments (excluding exceptions).

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

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

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

Right-of-use assets are measured at cost, which comprises the following components:

- the present value of the lease payments;

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- 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.

Accounting policies until 31 December 2018

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

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

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

Statutory capital reserve

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

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

Earnings per share

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

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The weighted average number of ordinary shares outstanding during the period is adjusted for the effects of any bonus issues and earnings per share for all periods presented are calculated on the same basis.

Income tax

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

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

Parent company and subsidiaries and associates registered in Estonia

Under Estonian laws, corporate profit for the year is not subject to income tax. Income tax is levied on dividends, gifts, donations, entertainment expenses, non-business expenditures and transfer price adjustments. The tax rate 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% (14/86 of the net distribution). In 2019, the lower tax rate applies to dividend distributions that amount to up to one third of the net dividend that was distributed and taxed in 2018. The income tax payable on dividends is recognised in profit or loss in the period in which the dividends are declared. The maximum income tax liability that would arise if all of the unrestricted equity were distributed as dividends is disclosed in note 33 to the consolidated financial statements.

Foreign subsidiaries and associates

In Ukraine, Finland, Sweden and Lithuania corporate profits are subject to income tax. In 2019, the income tax rates were as follows: Ukraine 18% (2018: 18%), Finland 20% (2018: 20%), Sweden 22% (2018: 22%) and Lithuania 15% (2018: 15%). Taxable profit is calculated by adjusting profit before tax for permanent and temporary differences between the carrying amounts and tax bases of assets and liabilities as permitted by the local tax laws.

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

Segment reporting

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

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

Revenue

Revenue is income arising in the course of the Group's ordinary activities. Revenue is recognised in the amount of the transaction price. The transaction price is the amount of consideration to which the Group expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties. The Group recognises revenue when control of a good or service is transferred to the customer.

Revenue from construction contracts

Construction contract revenue and construction contract costs (under contracts secured as a general contractor and a subcontractor and road maintenance contracts) are recognised as revenue and expenses, respectively, when they can be measured reliably using the stage of completion method. Contract revenue comprises the initial amount of revenue agreed in the contract and variations in contract work and claims and incentive payments to the extent that it is probable that they will result in revenue and are capable of being measured reliably. The stage of completion of a contract is determined using the cost method, i.e. based on the proportion that contract costs incurred for work performed bear to the estimated total contract costs.

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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 imposed by providers of debt capital, adequacy of the Group's equity and the Group's ability to continue as a going concern.

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

Credit risk

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

The factors, which have the strongest impact on the Group's credit risk exposure, are the specific circumstances of each customer. In addition, the Group's management considers more general features such as the customer's legal status (private or state-owned entity), geographical location, industry, and the economic situation in the country involved as these factors may also influence the Group's exposure to credit risk. Based on the Group's experience, private sector customers have the highest credit risk while the credit risk of government institutions and local governments is the lowest. The latter assessment is confirmed by the fact that there has been no need to write down receivables from public sector customers thanks to their stable solvency. In 2019, the share of revenue from public sector customers remained stable at around 34% (2018: around 34%). The largest public sector customers were the National Road Administration and the Centre for Defence Investment whose contracts accounted for around 13% and 11% of the Group's revenue, respectively (2018: 13% and 10%, 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 considered creditworthy by management. In the case of customers with whom the Group has prior experience, credit risk is mainly assessed based on the customer's past settlement behaviour as well as 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. However, the loans provided to non-Group parties have to be secured with mortgages, surety bonds or third-party guarantees.

When a credit loss is anticipated, the receivable or loan 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 both 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 the current and forecast direction of conditions 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 an analysis performed, the Group did not recognise a provision at 31 December 2019 (31 December 2018: 5 thousand euros) (note 9).

Further information on the Group's credit risk exposure is provided in note 34.

Liquidity risk

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

- The Group's business is seasonal in nature, particularly in the infrastructure segment. In the first quarter, business volumes and profit margins are the lowest and the Group needs to use the cash buffers accumulated in previous periods to cover operating and administrative expenses. In the second and third quarters, growth in operations triggers the need for additional working capital.
- 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).

Free funds that are not part of working capital are placed in term deposits with short maturities (up to 3 months).

The Group's liquidity position in 2020

At the reporting date, the Group's current assets and current liabilities amounted to 67,550 thousand euros and 66,849 thousand euros, respectively, and the current ratio was 1.01 (31 December 2018: 61,132 thousand euros and 54,460 thousand euros, respectively, and current ratio was 1.12). Current liabilities included borrowings of 11,058 thousand euros (31 December 2018: 9,374 thousand euros). In January 2020, the Group refinanced loan liabilities of 127 thousand euros, which at the reporting date were classified as current (new maturity date: 29 January 2021). In addition, the Group expects that an overdraft liability of 6,241 thousand euros, maturing on 30 May 2020, will be extended until May 2021.

After adjustment for the above amounts, current assets and current liabilities would amount to 67,550 thousand euros and 60,481 thousand euros, respectively (current ratio would be 1.12).

In the light of the above, the Group's management is confident that in 2020 the Group's liquidity position will be adequate to allow the Group to continue sustainable and profitable operating activities and to settle its liabilities to counterparties on a timely basis.

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

Market risk

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

Currency risk

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

The Ukrainian national currency, the hryvnia (UAH), floats against other currencies. The Ukrainian Group entities' currency risk exposure arises from financial instruments that are denominated in currencies other than the hryvnia, for example, borrowings denominated in euros.

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The exchange rate of the hryvnia is unstable because the political and economic environment in Ukraine continues to be strained due to the conflict between Ukraine and Russia, which broke out at the beginning of 2014, and the discontinuance of the determination of the national currency's indicative exchange rate by the National Bank of Ukraine at the beginning of 2015. In 2019, the hryvnia/euro exchange rate strengthened by approximately 20%. As a result, the Group's Ukrainian subsidiary had to translate its euro-denominated loans into the local currency, which gave rise to a foreign exchange gain of 1,044 thousand euros (2018: 147 thousand euros). Exchange gains and losses on financial instruments have been recognised in *Finance income* and *Finance costs*, respectively.

Translation of receivables and liabilities from operating activities did not give rise to any exchange gains or losses. Nor do the loans provided to the Group's Ukrainian associate in euros give rise to exchange losses that ought to be recognised in the Group's accounts.

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

The Swedish krona (SEK) has a floating exchange rate. During the reporting period, the Swedish krona weakened against the euro by around 2%. In 2019, the translation of receivables and payables related to operating activity due to the movement of the Swedish krona against the euro gave rise to an exchange loss of 16 thousand euros (2018: 76 thousand euros). The exchange loss has been recognised in other operating expenses. The translation of a loan provided to the Swedish subsidiary in euros into the local currency gave rise to an exchange loss of 196 thousand euros (2018: 121 thousand euros). The exchange loss has been recognised in finance costs.

The Group has not acquired derivative financial instruments to hedge its 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 (EURIBOR, EONIA or the creditor's own base rate). In the light of the Group's relatively heavy loan burden this would cause a significant increase in interest expense, which would have an adverse impact on the Group's profit. The Group mitigates the risk by pursuing a policy of entering, where possible, into fixed-rate contracts when the market interest rates are low.

As regards the loan products offered by banks, observance of the policy has proved difficult and most new contracts have a floating interest rate. The Group has entered into a derivative contract to manage the risks related to the interest rate of a lease contract signed in 2016 for the acquisition of an asphalt concrete plant.

Further information on the Group's market risk exposures is provided in note 34.

Country risk

In the reporting period, the Group operated in Sweden, Finland and Ukraine. Revenues generated in Sweden, Finland and Ukraine accounted for 5%, 4% and 2% of the Group's total revenue, respectively (2018: Sweden 2%, Finland 1% and Ukraine 4%). At the year-end, assets located in Sweden, Finland and Ukraine accounted for 3%, 3% and 4% of the Group's total assets, respectively (2018: Sweden 0.7%, Finland 0.8% and Ukraine 3%).

The Group's business operations did not change in 2019. The Group's activity in Ukraine decreased slightly. The Group remains conservative about the contracts it signs, entering into a contract only when it is certain that the risks involved are reasonable, considering the circumstances.

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

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

Taking into account the above factors, management is of the opinion that the Group's financial instruments and investment property that are related to Ukraine carry increased risk and the probability that their value may decrease is above average (notes 9 and 13).

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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 is based on the present value of their discounted future net cash flow.
- Financial liabilities – the fair value assessment for financial liabilities is based on the discounted present value of the future principal and interest payments. The discount rate applied is the average market interest rate for similar liabilities at the reporting date as outlined in the statistics released by the Bank of Estonia.

A comparison of the fair values and carrying amounts of the Group's financial instruments is presented in note 34.

Investment property

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

- Discounted cash flow method – To calculate the value of a property's discounted cash flows, the appraiser forecasts the property's future rental income (including rental per square metre and the occupancy rate) and associated operating expenses. Depending on the terms of the existing lease (whether and how easily the lease can be terminated by the tenant), the appraiser will base the projections on either the property's existing cash flows or the market's current average cash flows for similar properties. The present value of the future net cash flow is found by applying a discount rate which best reflects the market's expectations of a rate of return appropriate for the asset and the risks specific to the asset.
- Sales comparison method – Under this method, the fair value of a property is determined by reference to the price per square metre agreed in transactions performed with similar properties in similar circumstances. This method is used to determine the value of properties that do not generate rental income but are held for resale or capital appreciation.

- Price in a contract under the law of obligations – The fair value of properties which at the reporting date have been sold by a contract under the law of obligations but whose real right contract[3] has not yet been signed is determined based on the sales price of the property in the contract under the law of obligations. The method is used for determining the fair value of a property only when the Group has reasonable assurance that the related real right contract will be concluded under the same terms and conditions (e.g. the buyer has made a substantial prepayment by the reporting date or the real right contract is concluded after the reporting date but before the date management authorises the financial statements for issue). The method is also used when a contract under the law of obligations is signed after the reporting date but the terms of the transactions have been agreed before the end of the reporting period and they have not changed significantly by the date of the transaction.

The Group measured the fair values of its investment properties using the discounted cash flow method. The valuations were performed by the Group's real estate specialists with the assistance of independent experts.

Based on the valuation results, there was no need to recognise a change in the fair value of investment properties. The impact of possible changes in estimates on the value of investment properties is disclosed in note 13.

Capital management

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

The Group's gearing ratio has increased compared to the prior year.

Gearing ratio is at a level where it does not influence the Group's capital management policies and does not require the Group to raise additional share capital. The ceiling of the gearing ratio is linked to the size of equity. Based on the statutory minimum equity requirements (see the next section), the gearing ratio as at the reporting date could have extended to 25% (2018: 36%) assuming all other variables remained constant.

EUR '000 As at 31 December	2019	2018
Total interest-bearing liabilities (note 16)	27,384	24,204
Cash and cash equivalents (note 8)	-7,032	-7,678
Net interest-bearing liabilities	20,352	16,526
Total equity	32,773	33,709
Invested capital (interest-bearing liabilities + equity)	60,157	57,913
Gearing ratio*	34%	29%

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

Minimum capital requirements

At the reporting date, loan agreements signed with the banks required Nordecon AS to maintain the equity ratio (equity to equity and liabilities) at 30% or above (actual ratio at the end of 2019: 34%; 2018: 37%).

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 euros.

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

[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.

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Dividend policy

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

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

Dividends distributed by Nordecon AS in previous years:

Year of pay-out	Total dividends paid EUR '000	Number of shares, in thousands	Dividend per share EUR	Dividend pay-out ratio*
2015	923	30,757	0.03	47.2%
2016	923	30,757	0.03	515.6%
2017	1,384	30,913	0.045	45.5%
2018	1,859	31,529	0.06	133.9%
2019	1,891	31,529	0.06	55.9%

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

NOTE 6. Group entities

At 31 December 2019, the consolidated financial statements of Nordecon Group included 19 subsidiaries (2018: 20), of which 13 were incorporated and domiciled in Estonia (2018: 14), 3 in Ukraine (2018: 3), 1 in Lithuania (2018: 1), 1 in Sweden (2018: 1) and 1 in Finland (2018: 1).

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

Subsidiary	Core business	Country of incorporation	Ownership interest 2019 (%)	Ownership interest 2018 (%)
Nordecon Betoon OÜ	Concrete works	Estonia	52	52
Eston Ehitus AS	Building construction	Estonia	100	100
Tariston OÜ	Road construction and maintenance	Estonia	100	100
Kaurits OÜ	Leasing out heavy equipment and construction as a subcontractor	Estonia	100	100
EE Ressursid OÜ	Geodetic surveying	Estonia	100	100
Kalda Kodu OÜ	Real estate development	Estonia	100	100
Magasini 29 OÜ	Real estate development	Estonia	-	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 (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 2019, the Group had interests in 4 associates (2018: 4). Further information on equity-accounted investees is presented in note 12.

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

Summarised financial information for subsidiaries with material non-controlling interests

EUR '000 Company	2019	Nordecon Betoon OÜ	NOBE Rakennus OY	Total
Current assets		13,938	3,674	**17,612**
Non-current assets		936	0	**936**
Current liabilities		10,581	2,746	**13,327**
Non-current liabilities		400	3	**403**
Equity		3,893	925	**4,818**
Revenue		46,954	10,258	**57,212**
Profit		1,139	472	**1,611**
Non-controlling interests' share of profit		547	245	**792**
Interest held by non-controlling interests %		48%	48%	
Cash flows from operating activities		619	1,162	**1,781**
Cash flows from financing activities		-1,237	0	**-1,237**
Cash flows from investing activities		5	0	**5**
Net cash flow		-613	1,162	**-549**

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EUR '000 2018 Company	Nordecon Betoon OÜ	NOBE Rakennus OY	Total
Current assets	13,343	960	**14,303**
Non-current assets	526	0	**526**
Current liabilities	10,064	504	**10,568**
Non-current liabilities	52	3	**55**
Equity	3,753	454	**4,207**
Revenue	60,649	2,393	**63,042**
Profit	1,654	25	**1,679**
Non-controlling interests' share of profit	794	12	**806**
Interest held by non-controlling interests %	48%	48%	
Cash flows from operating activities	-130	-71	**-201**
Cash flows from financing activities	-1,624	0	**-1,624**
Cash flows from investing activities	-235	0	**-235**
Net cash flow	-1,989	-71	**-2,060**

At 31 December 2019, non-controlling interests in the Group's equity totalled 2,305 thousand euros (31 December 2018: 2,021 thousand euros), of which non-controlling interests in Nordecon Betoon OÜ accounted for 1,867 thousand euros and in NOBE Rakennus OY for 434 thousand euros (31 December 2018: Nordecon Betoon OÜ 1,808 thousand euros and NOBE Rakennus OY 208 thousand euros). The remaining non-controlling interests, none of which is individually material for the Group, totalled 4 thousand euros (31 December 2018: 5 thousand euros).

NOTE 7. Changes in Group structure

Merger of subsidiaries

The merger of Eston Ehitus AS (a wholly-held subsidiary of Nordecon AS) and its wholly-held subsidiary Magasini 29 OÜ was finalised in July 2019. In the transaction, Magasini 29 OÜ was acquired by Eston Ehitus AS. Magasini 29 OÜ was established to carry out a real estate development project in Tallinn. After the completion of development activities, including the sale of the terraced homes, the company's continuance as a separate entity was no longer practical. The merger was registered at the Commercial Registry on 9 July 2019.

NOTE 8. Cash and cash equivalents

EUR '000	31 December 2019	31 December 2018
Current accounts	7,032	7,678
Total cash and cash equivalents	**7,032**	**7,678**

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% (2018: 0.01%). A significant share of the Group's current accounts are with the following banks: Swedbank AS, Luminor Bank AS and SEB 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 34.

NOTE 9. Trade and other receivables

EUR '000 Current items	Note	31 December 2019	31 December 2018
Trade receivables	34	29,141	21,818
Retentions receivable	26, 34	763	1,085
Receivables from related parties	34, 37	739	2
Other receivables	34	46	26
Total receivables		**30,689**	**22,931**
Due from customers for contract work	26, 34	6,874	8,696
Total current trade and other receivables		**37,563**	**31,627**

EUR '000 Non-current items	Note	31 December 2019	31 December 2018
Loans to related parties	34, 37	8,015	7,780
Other non-current receivables	34	420	445
Total non-current trade and other receivables		**8,435**	**8,225**

Trade receivables are presented net of the impairment allowance, which at the year-end amounted to -55 thousand euros (31 December 2018: -5 thousand euros). Changes in the impairment allowance are disclosed in note 34.

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

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 37).

The loan recognised in the statement of financial position as at 31 December 2019 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 euros. The Group has invested in the associate together with other shareholders in proportion to its ownership interest. The associate's only liabilities are to its shareholders and each shareholder's receivable is proportionate to the shareholder's interest in the associate. The associate's main asset is the above property. Therefore, the carrying amount of the loan was measured based on the fair value of the property held by the associate, which qualifies as a level 3 measurement according to the fair value hierarchy provided in IFRS 13 *Fair Value Measurement*.

At 31 December 2019, the carrying amount of the loan was 8,015 thousand euros (31 December 2018: 7,780 thousand euros): loan principal and accrued interest totalled 10,929 thousand euros (31 December 2018: 10,694 thousand euros) and prior period impairment losses amounted to 2,914 thousand euros. The loan was written down due to the downturn in the Ukrainian economy and the weakening of the Ukrainian currency during the previous years, which lowered the prices of, and demand for, commercial real estate.

According to management's estimates the associate will settle its loan liability to the Group after the sale of the development project, i.e. the property, which is expected to occur within the next 5 years. It is expected that during that time the value of the project will increase by 3%. The expectation is based on Ukraine's economic growth forecast for the coming years. According to management's estimates, the probability that the loan will not be recovered and will have to be written off in full is close to zero because the Group's interest in the associate is 44%, none of the shareholders has control of the associate and the property has been mortgaged for the benefit of Nordecon AS.

Based on a valuation report issued in 2019 by an independent internationally recognised appraiser that measured the fair value of the property, there was no need to recognise an additional impairment loss at 31 December 2019. According to the assessment of the Group's management, all assumptions applied in the valuation of the loan were realistic but due to the complicated situation of the Ukrainian economy the sensitivity of the value of the loan is higher than usual.

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

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

- a discount rate of 12.36%;
- a vacancy rate of 20-60%, depending on the purpose of use of the rental premises;
- rental prices of 13-19 euros per square metre or 56-363 euros per day, depending on the purpose of use of the rental premises;
- a forecast period of 2020-2027 plus the terminal year (growth 1.8%).

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

- if rental prices decreased by 10% compared to the ones applied – by around 2,150 thousand euros;
- if the vacancy rate of the commercial premises rose by 5 percentage points – by around 1,444 thousand euros;
- if the discount rate rose by 1 percentage point – by around 2,067 thousand euros.
- if the completion of the development projects, taken as a whole, was deferred by 1 year – by around 587 thousand euros.

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 10. Prepayments

EUR '000	31 December 2019	31 December 2018
Prepayments to suppliers	1,016	788
Prepaid taxes	556	252
Prepaid expenses	241	343
Total prepayments	**1,813**	**1,383**

Prepayments to suppliers comprise prepayments for services of 813 thousand euros (2018: 632 thousand euros) and building materials of 203 thousand euros (2018: 156 thousand euros).

NOTE 11. Inventories

EUR '000	31 December 2019	31 December 2018
Raw materials and consumables	3,149	3,560
Work in progress	6,964	6,434
Apartments and parking spaces for sale	230	707
Properties purchased for development and pre-development costs	10,799	9,743
Total inventories	**21,142**	**20,444**

In 2019, inventories of 45,351 thousand euros (2018: 12,873 thousand euros) were recognised in *Cost of sales*.

Raw materials and consumables comprise inventories acquired for construction and road maintenance operations. In the reporting and the comparative period, there were no write-downs of materials and consumables.

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:

EUR '000	31 December 2019	31 December 2018
Capitalised pre-development costs	505	458
Properties purchased	10,294	9,285
Total	**10,799**	**9,743**
Of which borrowing costs	**737**	**865**

Capitalised borrowing costs accounted for 12% of the Group's total borrowing costs in 2019 (2018: 16%).

Apartments and parking spaces for sale comprises the construction costs of apartments completed but not yet sold. In 2019 and 2018, the net realisable values of the apartments did not decrease below their carrying amounts and no write-downs were recognised. Net realisable values were estimated using comparisons with the market prices of similar apartments.

At the reporting date, the total carrying value of properties (plots) acquired for development was 10,294 thousand euros (2018: 9,285 thousand euros). In 2019, the Group purchased a property at Särje 22 in Tallinn for 1,300 thousand euros (note 37). A property acquired for development is carried in *Properties purchased for development and pre-development costs* until it is sold as a separate asset or its development reaches the phase where the building on it is ready for sale at which point the property or part of it is reclassified to *Apartments for sale*. All pre-development expenditures that qualify for capitalisation are recognised in *Work in progress*. At the year-end, properties acquired for development were carried at cost. No properties (plots) acquired for development were written down in 2019 or 2018. According to management's assessment, at 31 December 2019, properties purchased for development comprised properties of 3,503 thousand euros whose development will start within a year and properties of 6,791 thousand euros whose development will start later. According to the Group's estimates, the normal time frame for development activity (from the acquisition of the plot to the sale of the completed development project) is 10 to 15 years.

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

Potential impact of changes in estimates

The Group measured the net realisable values of properties (plots) acquired for development using the residual value method. Significant valuation inputs included the expected cash flows of the project (the apartments' expected sales price per square metre, which was set at 1,600 to 2,300 euros, depending on the location). A sensitivity analysis showed that if actual sales proceeds were 10% smaller (compared to the estimates), properties acquired for development would have to be written down by around 2,408 thousand euros.

NOTE 12. Investments in equity-accounted investees

General information on equity-accounted investees

Name and type of investee		Domicile	Group's interest 31 December 2019	31 December 2018	Core business
V.I. Center TOV	Associate	Ukraine	44%	44%	Real estate development
Kastani Kinnisvara OÜ	Associate	Estonia	26%	26%	Real estate development
Embach Ehitus OÜ	Associate	Estonia	46%	46%	Building construction
Pigipada OÜ	Associate	Estonia	49%	49%	Bitumen refining

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

Carrying amount of investments in equity-accounted investees

EUR '000	2019	2018
Total investments in equity-accounted investees at beginning of period	**2,266**	**1,888**
Profit under the equity method	585	835
Dividends received	-482	-457
Total investments in equity-accounted investees at end of period	**2,369**	**2,266**

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Financial information of equity-accounted investees

2019

Summary financial information of associates presented as separate companies

EUR '000

Company	V.I. Center TOV	Kastani Kinnisvara OÜ	Embach Ehitus OÜ	Pigipada OÜ	Total
Current assets	396	15	7,518	1,912	9,841
Non-current assets	9,002	0	1,727	781	11,510
Current liabilities	23,083	45	6,021	347	29,496
Equity	-13,684	-31	2,649	2,347	-8,719
Revenue	0	0	22,969	9,578	32,547
Expenses	0	0	-22,386	-8,930	-31,316
Profit	4,099	0	583	648	5,330
Carrying amount of investment	0	0	1,219	1,150	2,369

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 2019, V.I. Center TOV's current liabilities to the Group amounted to 10,930 thousand euros (31 December 2018: 10,695 thousand euros). In the reporting period, expenses were reduced by foreign exchange gains. In the comparative period, foreign exchange losses accounted for a major share of expenses.

2018

Summary financial information of associates presented as separate companies

EUR '000

Company	V.I. Center TOV	Kastani Kinnisvara OÜ	Embach Ehitus OÜ	Pigipada OÜ	Total
Current assets	328	15	7,299	1,443	9,222
Non-current assets	7,090	0	730	869	8,138
Current liabilities	22,596	45	5,234	114	27,989
Equity	-15,178	-31	2,584	2,199	-10,426
Revenue	0	0	30,122	8,808	38,930
Expenses	1,213	0	-28,995	-8,162	-35,944
Profit	1,213	0	1,127	646	2,986
Carrying amount of investment	0	0	1,189	1,077	2,266

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.

EUR '000	Recorded in 2019			Recorded in 2018		
	Profit	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	4,099	0	4,099	1,213	0	1,213
Kastani Kinnisvara OÜ	0	0	0	0	0	0
Embach Ehitus OÜ	583	583	0	518	518	0
Pigipada OÜ	648	648	0	316	316	0
Total	**5,330**	**1,231**	**4,099**	**2,047**	**834**	**1,213**

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NOTE 13. Investment property

EUR '000	2019	2018
Investment property at 1 January	**5,526**	**4,929**
Sales of investment property	0	-1,382
Addition of investment property	4	1,979
Investment property at 31 December	**5,530**	**5,526**

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. Based on a valuation report issued in 2019 by an independent internationally recognised appraiser, at the date of the valuation the fair value of the property was 1,983 thousand euros. In connection with the revaluation of the property acquired through the transaction, the Group recognised a gain of 4 thousand euros (recognised in revenue) (note 28).

The period's rental income on investment property amounted to 13 thousand euros (2018: 15 thousand euros) and direct property management expenses totalled 3 thousand euros (2018: 3 thousand euros). Investment properties that do not generate rental income did not give rise to any significant property management expenses. Information on assets pledged as collateral for financial liabilities is provided in note 36.

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

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

- construction prices of around 420 to 700 euros 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% for properties in Estonia and 14% for properties in Ukraine;
- a vacancy rate of 5% for properties in Estonia and 30-45% for properties in Ukraine;
- an average rental price of 9 euros per square metre for commercial premises and 5 euros per square metre for production premises and warehouses (including a cold storage plant planned to be built in Ukraine);
- a forecast period of 2020-2027;
- 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 on investment property can be found in note 2, in *Use of significant accounting estimates and judgements*, and note 5, in *Determination of fair value – Investment property.*

Potential impact of changes in estimates

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

- if rental prices decreased by 5% compared to the ones applied, the investment properties would have to be written down by around 1,060 thousand euros;
- if construction prices rose by 5% compared to the ones applied, the investment properties would have to be written down by around 660 thousand euros;
- if the discount rate rose by 1 percentage point, the investment properties would have to be written down by around 740 thousand euros.

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NOTE 14. Property, plant and equipment

EUR '000	Land and buildings	Plant and equipment	Other items	Assets under construction, prepayments	Right-of-use assets	Total
Cost						
At 31 December 2017	**2,759**	**22,682**	**4,606**	**178**	**0**	**30,225**
Additions	16	1,871	34	131	0	2,052
Disposals	-782	-559	-74	0	0	-1,415
Reclassification	0	86	168	-137	0	117
Effect of movements in exchange rates	0	0	0	0	0	0
At 31 December 2018	**1,993**	**24,080**	**4,734**	**172**	**0**	**30,979**
Initial application of IFRS 16	0	0	0	0	4,260	4,260
Reclassification from one class of property, plant and equipment to another	0	-7,450	-165	0	7,615	0
Adjusted opening balance at 1 January 2019	**1,993**	**16,630**	**4,569**	**172**	**11,875**	**35,239**
Additions	797	604	322	240	3,897	5,859
Disposals	-136	-790	-239	0	-337	-1,502
Transfer from one class of property, plant and equipment to another	0	542	23	-23	-542	0
Transfer from inventories	0	0	68	0	0	68
Effect of movements in exchange rates	0	34	7	0	0	41
At 31 December 2019	**2,653**	**17,020**	**4,750**	**389**	**14,893**	**39,705**
Accumulated depreciation						
At 31 December 2017	**942**	**13,920**	**2,797**	**0**	**0**	**17,659**
Depreciation for the year	87	1,714	174	0	0	1,975
Disposals	-354	-489	-106	0	0	-949
Effect of movements in exchange rates	0	5	1	0	0	6
At 31 December 2018	**675**	**15,150**	**2,866**	**0**	**0**	**18,691**
Depreciation for the year	43	549	143	0	2,289	3,024
Disposals	-20	-151	-234	0	-641	-1,046
Effect of movements in exchange rates	0	29	5	0	0	34
At 31 December 2019	**688**	**15,577**	**2,780**	**0**	**1,658**	**20,703**
Carrying amount						
At 31 December 2017	**1,817**	**8,762**	**1,809**	**178**	**0**	**12,566**
At 31 December 2018	**1,318**	**8,930**	**1,868**	**172**	**0**	**12,288**
At 31 December 2019	**1,955**	**1,443**	**1,970**	**389**	**13,245**	**19,002**

The breakdown of right-of-use assets between classes of property, plant and equipment is presented in note 17.

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

Proceeds from the sale of property, plant and equipment totalled 377 thousand euros (see the statement of cash flows). In 2018, proceeds from the sale of property, plant and equipment totalled 1,784 thousand euros; the largest item that was sold was a property with buildings located in Keila. Gain on the sale of property, plant and equipment totalled 258 thousand euros (2018: 1,113 thousand euros) (note 31).

Depreciation expense has been recognised in *Cost of sales* in an amount of 2,713 thousand euros (2018: 1,913 thousand euros) (note 29) and in *Administrative expenses* in an amount of 311 thousand euros (2018: 62 thousand euros) (note 30).

On the initial application IFRS 16 the Group recognised the underlying assets of leases which under IAS 17 were classified as operating leases as items of property, plant and equipment (note 17). Right-of-use assets also include the underlying assets of finance leases, which were recognised as items of property, plant and equipment before 1 January 2019.

In 2019, the Group signed new lease contracts of 4,194 thousand euros (2018: 1,399 thousand euros) (note 17).

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NOTE 15. Intangible assets

EUR '000	Goodwill	Software licences	Trademark	Development expenditures	Pre-payments	Total
Cost						
At 31 December 2017	**18,773**	**82**	**863**	**443**	**0**	**20,161**
Additions	0	50	0	0	0	50
Disposals	0	0	0	0	0	0
At 31 December 2018	**18,773**	**132**	**863**	**443**	**0**	**20,211**
Additions	0	11	0	0	67	78
Disposals	0	0	0	0	0	0
At 31 December 2019	**18,773**	**144**	**863**	**443**	**67**	**20,290**
Accumulated amortisation and impairment losses						
At 31 December 2017	**4,597**	**62**	**863**	**0**	**0**	**5,522**
Amortisation for the year	0	15	0	0	0	15
Disposals	0	0	0	0	0	0
At 31 December 2018	**4,597**	**77**	**863**	**0**	**0**	**5,537**
Amortisation for the year	0	17	0	0	0	17
Disposals	0	0	0	0	0	0
At 31 December 2019	**4,597**	**94**	**863**	**0**	**0**	**5,554**
Carrying amount						
At 31 December 2017	**14,176**	**20**	**0**	**443**	**0**	**14,639**
At 31 December 2018	**14,176**	**55**	**0**	**443**	**0**	**14,674**
At 31 December 2019	**14,176**	**50**	**0**	**443**	**67**	**14,736**

Capitalised development expenditures result from preparations made for the extraction of sand from the seabed. The preparations will continue in 2020.

Amortisation has been recognised in *Administrative expenses* in an amount of 17 thousand euros (2018: 15 thousand euros).

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). The value in use of each subsidiary was determined using the discounted cash flow method and it was compared to the carrying amount of the investment in the subsidiary (including goodwill).

Carrying amounts of goodwill allocated to the subsidiaries

Company	Interest 2019	Interest 2018	31 December 2019	EUR '000 31 December 2018
Nordecon AS				
Goodwill	-	-	8,206	8,206
Of which: Buildings			5,449	5,449
Infrastructure			2,757	2,757
Subsidiaries				
Nordecon Betoon OÜ	52%	52%	181	181
Kaurits OÜ		100%	2,022	2,022
Eston Ehitus AS	100%	100%	3,767	3,767
Total			**14,176**	**14,176**

General assumptions for determining value in use

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

- The forecast period was 2020-2023 plus the terminal year.
- The present value of future cash flows was found using the average weighted cost of capital (WACC) as the discount rate. The proportions of debt and equity capital used as weights were based on the capital structures of similar companies (measured at average market value), which according to the Damodaran database were 44% and 56%, respectively.
- The cost of debt was estimated based on the CGUs' actual loan interest rates, which ranged from 2.5% to 4.6%. The expected rate of return on equity was set at 15%, which was compared against the required rate of return on equity for companies operating in a similar industry in the Damodaran database.
- Changes in subsequent periods' revenues were projected on the basis of the CGUs' action plans for subsequent years (including the budgets approved by management for 2020) and an assessment of the market situation in the segment where the specific CGU operates.
- Changes in subsequent periods' gross margins were projected on the basis of the CGUs' action plans for subsequent years (including the budgets approved by management for 2020) 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 2020.
- 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 2020 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	2020-2023 + terminal year
Discount rate	10.4%
Revenue change	2020: 20.3%, 2021-2023: compound annual growth rate (CAGR) 5.9%, terminal year: 1.0%
Gross margin	2020: based on budget, 2021-2023 and terminal year: 6.2%
Administrative expenses	See general assumptions, 2020: 2.9%, 2021-2023 and terminal year: 3.0% of revenue
Working capital	See general assumptions
Capital expenditures	See general assumptions

Nordecon AS Buildings	Assumptions applied
Forecast period	2020-2023 + terminal year
Discount rate	10.4%
Revenue change	2020: 24.2%, 2021-2023: compound annual growth rate (CAGR) -1.3%, terminal year: 1.0%
Gross margin	2020: based on budget, 2021-2023 and terminal year: 6.2%
Administrative expenses	See general assumptions, 2020: 2.9%, 2021-2023 and terminal year: 3.0% of revenue
Working capital	See general assumptions
Capital expenditures	See general assumptions

Nordecon Betoon OÜ	Assumptions applied
Forecast period	2020-2023 + terminal year
Discount rate	9.5%
Revenue change	2020: 10.5%, 2021-2023: compound annual growth rate (CAGR) 3.3%, terminal year: 1.0%
Gross margin	2020: based on budget, 2021-2023: 6.5%, terminal year: 6.5%
Administrative expenses	See general assumptions, 2020-2023 and terminal year: 3.0% of revenue
Working capital	See general assumptions
Capital expenditures	See general assumptions

Kaurits OÜ	Assumptions applied
Forecast period	2020-2023 + terminal year
Discount rate	9.6%
Revenue change	2020: -12.6%, 2021-2023: compound annual growth rate (CAGR) 3.3%, terminal year: 1.0%
Gross margin	2020: based on budget, 2021-2023 and terminal year: 7.5%
Administrative expenses	See general assumptions, 2020-2023 and terminal year: 3.5% of revenue
Working capital	See general assumptions
Capital expenditures	See general assumptions, 2020-2023: continuing renewal of machinery fleet.

Eston Ehitus AS	Assumptions applied
Forecast period	2020-2023+ terminal year
Discount rate	9.5%
Revenue change	2020: -3.8%, 2021-2023: compound annual growth rate (CAGR) 3.3%, terminal year: 1.0%
Gross margin	2020: based on budget, 2021-2023 and terminal year: 6.5%
Administrative expenses	See general assumptions, 2020: 2.3%, 2021-2023 and terminal year: 2.0% of revenue (own support functions minimal; a significant share of expenses included in project costs)
Working capital	See general assumptions
Capital expenditures	See general assumptions

According to the results of impairment testing, there was no need to write goodwill down in 2019 or in 2018.

Potential impact of changes in estimates

The value in use of a cash-generating unit is compared to the carrying amount of the investment made plus the carrying amount of the goodwill allocated to it. Value in use is an estimate. Therefore, any changes in selected inputs may increase or reduce the value obtained. 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 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 cash-generating units to which goodwill has been allocated will exceed the carrying amount of the investments and the goodwill allocated to them as long as the rise in the discount rate does not exceed: 0.4 percentage points for Nordecon AS Infrastructure, 3.0 percentage points for Nordecon AS Buildings, 0.9 percentage point for Eston Ehitus AS and 1.7 percentage points for Kaurits OÜ, assuming all other variables remain constant. A change in the discount rate would have no impact on the impairment testing of goodwill allocated to Nordecon Betoon OÜ.

If revenue change proved 5 percentage points smaller, assuming all other variables remain constant, goodwill would have to be written down as follows: at Nordecon AS Infrastructure by 2,757 thousand euros and at Eston Ehitus AS by 1,412 thousand euros. The goodwill allocated to other cash-generating units would not have to be written down.

If the change in gross margin proved 1 percentage point smaller, assuming all other variables remain constant, goodwill would have to be written down as follows: at Nordecon AS Infrastructure by 2,757 thousand euros, at Nordecon AS Buildings by 2,026 thousand euros and at Eston Ehitus AS by 1,211 thousand euros. The goodwill allocated to other cash-generating units would not have to be written down.

NOTE 16. Borrowings

Current borrowings

EUR '000	Note	31 December 2019	31 December 2018
Overdraft liabilities		8,385	5,334
Current portion of non-current borrowings, of which:		2,673	2,389
Bank loans		3	634
Lease liabilities	17	2,670	1,755
Factoring liabilities		0	1,651
Total current borrowings		**11,058**	**9,374**

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Non-current borrowings

EUR '000	Note	31 December 2019	31 December 2018
Total non-current borrowings		18,999	17,219
Of which current portion		2,673	2,389
Non-current portion, of which:		**16,326**	**14,830**
Bank loans		2,628	2,828
Overdrafts		5,790	8,337
Lease liabilities	17	7,902	3,654
Derivative financial instruments		6	11

The Group has entered into a derivative contract to manage the risks related to changes in interest rates. The contract took effect on 16 May 2016 and the maturity date is 16 April 2021. The nominal amount of the contract is 2,153 thousand euros.

Details of loans as at 31 December 2019

EUR '000 Loan type	Base currency	Interest rate	Up to 1 year	1-2 years	3-... years	Total loan	Maturity date
Overdraft	EUR	Eonia + 6.0%	2,017	0	0	2,017	31 December 2020
Overdraft	EUR	4%	6,241	0	0	6,241	30 May 2020
Overdraft	EUR	Eonia + 3.1%	127	0	0	127	31 January 2020
Overdraft	EUR	Eonia + 6.0%	0	5,790	0	5,790	29 January 2021
Investment loan	EUR	6M EURIBOR + 4.0%	0	778	0	778	2 July 2021
Investment loan	EUR	6M EURIBOR + 1.8%	3	0	0	3	25 January 2020
Investment loan	EUR	6M EURIBOR + 4.0%	0	1,850	0	1,850	5 June 2021
Total loans			**8,388**	**8,418**	**0**	**16,806**	

The overdraft facility with a maturity date of 31 January 2020 was extended in January 2020 until 29 January 2021.

The Group has to agree its dividend distributions with the banks which finance its operations.

Details of loans as at 31 December 2018

EUR '000 Loan type	Base currency	Interest rate	Up to 1 year	1-2 years	3-... years	Total loan	Maturity date
Overdraft	EUR	Bank's base rate + 3.1%	0	2,421	0	2,421	31 January 2020
Overdraft	EUR	4%	5,334	0	0	5,334	30 May 2019
Overdraft	EUR	Bank's base rate + 3.1%	0	5,916	0	5,916	31 January 2020
Investment loan	EUR	6M EURIBOR + 3.2%	0	975	0	975	25 April 2020
Investment loan	EUR	6M EURIBOR + 1.8%	36	3	0	39	25 January 2020
Investment loan	EUR	6M EURIBOR + 4.0%	0	1,850	0	1,850	5 June 2021
Investment loan	EUR	4.25%	598	0	0	598	24 December 2019
Factoring liability	EUR	6M EURIBOR + 2.5%	1,528	0	0	1,528	31 December 2019
Factoring liability	EUR	0%	123	0	0	123	31 December 2019
Total loans			**7,619**	**11,165**	**0**	**18,784**	

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Reconciliation of financial liabilities to cash flows

EUR '000	Note	2019	2018
Balance of financial liabilities at beginning of period		**24,204**	**30,152**
Proceeds from loans received		3,705	2,898
Repayment of loans received		-4,032	-4,671
Payments of the principal portion of lease liabilities	17	-3,276	-1,879
Addition of lease liabilities (new leases)	17	4,194	1,723
Initial application of IFRS 16	14, 17	4,260	0
Change in factoring liabilities		-1,651	-3,998
Change in the value of derivatives		-5	-2
Offsetting of lease liabilities against invoices for sales of property plant and equipment	17	-15	-11
Effect of movements in exchange rates		0	-8
Balance of financial liabilities at end of period		**27,384**	**24,204**

NOTE 17. Right-of-use assets and lease liabilities

The Group began to apply IFRS 16 *Leases* from 1 January 2019. On the application of IFRS 16, the Group recognised right-of-use assets within items of property, plant and equipment and lease liabilities for leases which under IAS 17 were accounted for as operating leases (note 4). The Group also reclassified assets, which had been held under finance leases, to right-of-use assets within property, plant and equipment.

The Group leases different buildings and commercial premises and cars. Most leases have been signed for a fixed period (5 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

EUR '000	Note	Land and buildings	Plant and equipment	Other items	Total
Cost					
At 31 December 2018		**0**	**0**	**0**	**0**
Initial application of IFRS 16	4, 14	142	4,118	0	4,260
Reclassification of underlying assets of finance leases		0	7,450	165	7,615
Adjusted opening balance at 1 January 2019		**142**	**11,568**	**165**	**11,875**
Additions		2,355	1,508	34	3,897
Disposals		0	-337	0	-337
Reclassification		0	-542	0	-542
At 31 December 2019		**2,497**	**12,197**	**199**	**14,893**
Accumulated depreciation					
At 31 December 2018		**0**	**0**	**0**	**0**
Depreciation for the year		106	2,157	26	2,289
Disposals		0	-641	0	-641
At 31 December 2019		**106**	**1,516**	**26**	**1,648**
Carrying amount					
At 31 December 2018		**0**	**0**	**0**	**0**
At 31 December 2019		**2,391**	**10,681**	**173**	**13,245**

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Lease liabilities

The Group as a lessee

EUR '000	Note	2019	2018
Lease liabilities at beginning of year		**5,409**	**5,576**
Initial application of IFRS 16		4,260	0
Addition		4,194	1,723
Offsetting	16	-15	-11
Payments of the principal portion of lease liabilities		-3,276	-1,879
Lease liabilities at end of year, of which falling due:		**10,572**	**5,409**
Not later than 1 year	16	2,670	1,755
Later than 1 year and not later than 5 years	16	7,902	3,654
Base currency EUR		10,572	5,409
Interest rate for contracts denominated in EUR*		2.0%-4.0%	2.0%-3.9%
Weighted average interest rate		2.4%	2.4%
Interest expense of the period		268	95
Cash outflows related to leases		-3,544	-1,974

* 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:

EUR '000	2019			2018		
Payable	Minimum lease payments*	Interest	Present value of minimum lease payments	Minimum lease payments*	Interest	Present value of minimum lease payments
Not later than 1 year	2,915	245	2,670	1,857	103	1,755
Later than 1 year and not later than 5	8,315	413	7,902	3,793	138	3,654
Total	**11,230**	**658**	**10,572**	**5,650**	**241**	**5,409**

* 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 twelve months or less.

Short-term leases recognised in profit or loss

EUR '000	
2019 – Leases under IFRS 16	
Interest expense on leases	268
Lease expenses on leases of low-value assets and short-term leases	5,830
2018 – Operating leases under IAS 17	
Lease expenses	5,968
Future lease payments under non-cancellable leases	2,020

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

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

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NOTE 18. Trade payables

EUR '000	Note	31 December 2019	31 December 2018
Trade payables		34,326	25,574
Accrued expenses related to contract work		5,417	7,109
Payables to related parties	37	987	2,271
Total current trade payables	34	**40,730**	**34,954**
Trade payables	34	98	98
Total non-current trade payables		**98**	**98**

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 19. Other payables

EUR '000	Note	31 December 2019	31 December 2018
Payables to employees	34	4,641	3,554
Taxes payable		3,266	1,565
Accrued expenses	34	27	26
Miscellaneous payables	34	20	42
Total current other payables		**7,954**	**5,187**
Miscellaneous payables	34	177	71
Total non-current other payables		**177**	**71**

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

Accrued expenses include mainly interest accrued on loan liabilities.

Taxes payable

EUR '000	31 December 2019	31 December 2018
Value added tax	1,251	128
Personal income tax	550	438
Social security tax	919	743
Other taxes	546	256
Total taxes payable	**3,266**	**1,565**

NOTE 20. Deferred income

EUR '000	Note	31 December 2019	31 December 2018
Due to customers for contract work	26	6,384	3,874
Advances received for goods and services		7	58
Total deferred income		**6,391**	**3,932**

NOTE 21. Provisions

EUR '000	31 December 2019	31 December 2018
Current provisions	716	1,013
Non-current provisions	1,425	969
Total provisions	**2,141**	**1,982**

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Changes in provisions

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

(EUR '000)	2019	2018
Opening balance	**900**	**1,249**
Provisions used and reversed	-1,376	-906
Provisions recognised	1,790	557
Closing balance, of which:	**1,314**	**900**
Current portion	667	482
Non-current portion	647	418

Rehabilitation provisions (EUR '000)	2019	2018
Opening balance	**596**	**466**
Provisions used and reversed	-9	-25
Provisions recognised	234	155
Closing balance, of which:	**821**	**596**
Current portion	43	45
Non-current portion	778	551

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 (EUR '000)	2019	2018
Opening balance	**487**	**91**
Provisions recognised	6	474
Provisions used	-487	-78
Closing balance, of which:	**6**	**487**
Current portion	6	487
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 2019, the provision for onerous construction contracts amounted to 6 thousand euros (31 December 2018: 6 thousand euros).

NOTE 22. Equity

Share capital

EUR '000	2019	2018
At 1 January	16,321	18,263
Reduction of share capital	-1,942	-1,942
At 31 December	**14,379**	**16,321**

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

Share premium

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

Capital reserve

The Estonian Commercial Code requires companies to set up a capital reserve. Each year at least one twentieth of profit for the year has to be transferred to the capital reserve until the reserve amounts to one tenth of share capital. The capital reserve may be used for covering losses and increasing share capital but not for making distributions to shareholders. At the reporting date, the capital reserve stood at 2,554 thousand euros (31 December 2018: 2,554 thousand euros).

Translation reserve

The translation reserve comprises foreign exchange differences on the translation of the financial statements of foreign subsidiaries whose functional currency differs from the Group's presentation currency. At the reporting date, the translation reserve stood at 1,169 thousand euros (31 December 2018: 1,992 thousand euros). The change is attributable to the weakening of the Ukrainian and Swedish subsidiaries' functional currency against the euro.

Dividends

In 2019, the parent, Nordecon AS, distributed a dividend of 1,891 thousand euros (2018: 1,859 thousand euros) (note 5).

Reduction of share capital

On 29 May 2019 the annual general meeting of Nordecon AS adopted a resolution on the reduction of the company's share capital and on 3 September 2019 the reduction was registered at the Commercial Registry.

Based on the decision of the annual general meeting, the company's share capital was reduced by 1,942 thousand euros, from 16,321 thousand euros to 14,379 thousand euros. Share capital was reduced by reducing the book value of the shares by 0.06 euros per share. The number of the company's shares remained the same and the book value of the shares decreased in proportion to the reduction of share capital.

The reduction of share capital of 1,892 thousand euros (0.06 euros per share) was paid out to shareholders on 18 December 2019. No payments were made to Nordecon AS for own shares held by the company.

NOTE 23. Earnings per share

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

	2019	2018
Profit for the period attributable to owners of the parent (EUR '000)	3,378	3,381
Weighted average number of shares (in thousands)	31,521	31,521
Basic earnings per share (EUR)	0.11	0.11
Diluted earnings per share (EUR)	0.11	0.11

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

NOTE 24. 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 enable the executive management to benefit from their contribution to growth in the value of the company's share. Under the plan, Nordecon AS granted options for acquiring a total of 1,618,755 ordinary shares in Nordecon AS. The options could be exercised when three years had passed since the signature of the option agreement but not before the company's general meeting had approved the company's annual report for 2016.

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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 euros, increasing share capital by 1,035 thousand euros to 20,692 thousand euros, and acquired the same number of own (treasury) shares at the same price.

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

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

The annual general meeting which convened on 23 May 2018 adopted some amendments to the option plan which grant Nordecon AS's chairman of the board the right to acquire up to 200,000 shares and each member of the board the right to acquire up to 129,500 shares in Nordecon AS. An option may be exercised when three years have passed since the signature of the option agreement but not before the general meeting has approved the company's annual report for 2020. Exercise of the options is linked to the achievement of the Group's EBITDA target for 2020 (from 6,083 thousand euros to 12,167 thousand euros).

At 31 December 2019, options for the acquisition of 229,857 shares had been exercised, options for the acquisition of 800,398 shares had expired and options for the acquisition of 588,500 shares were still exercisable.

NOTE 25. Segment reporting

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

The operating segments monitored by the chief operating decision maker include both a business and a geographical dimension.

The Group's reportable operating segments are:

- Buildings
- Infrastructure

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

Preparation of segment reporting

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

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

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

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2019

EUR '000

	Note	Buildings	Infrastructure	Total
Total revenue		**170,653**	**63,325**	**233,978**
Inter-segment revenue		-6	-262	-268
Revenue from external customers	28	**170,647**	**63,063**	**233,710**
Gross profit of the segment		**10,679**	**2,231**	**12,910**
Depreciation and amortisation		-549	-2,293	-2,842
Segment assets		**82,735**	**24,125**	**106,860**
Investments in equity-accounted investees		1,219	1,150	2,369
Capital expenditures		605	1,645	2,250

2018

EUR '000

	Note	Buildings	Infrastructure	Total
Total revenue		**162,909**	**60,138**	**223,047**
Inter-segment revenue		0	-52	-52
Revenue from external customers	28	**162,909**	**60,086**	**222,995**
Gross profit of the segment		**7,614**	**3,378**	**10,992**
Depreciation and amortisation		-143	-1,847	-1,990
Segment assets		**67,094**	**21,097**	**88,191**
Investments in equity-accounted investees		1,189	1,077	2,266
Capital expenditures		312	1,740	2,052

Revenue from both the National Road Administration in an amount of 29,900 thousand euros and the Centre for Defence Investment in an amount of 26,255 thousand euros, recognised using the stage of completion method, accounted for over 10% of the Group's revenue for 2019 (in 2018: 28,421 thousand euros and 22,243 thousand euros, respectively). Revenue from the Centre for Defence Investment is reported in the Buildings and Infrastructure segments and revenue from the National Road Administration 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 2019 amounted to 6,528 thousand euros and 949 thousand euros, respectively (2018: 9,369 thousand euros and 1,203 thousand euros, respectively).

The Group's construction contract revenue for 2019 amounted to 222,566 thousand euros (2018: 206,674 thousand euros).

Reconciliation of segment revenues

EUR '000	2019	2018
Total revenues for reportable segments	233,978	223,047
Elimination of inter-segment revenues	-268	-52
Reportable segments' unallocated revenue	361	501
Total consolidated revenue	**234,071**	**223,496**

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Reconciliation of segment profit

EUR '000	2019	2018
Total profit for reportable segments	12,910	10,992
Reportable segments' unallocated loss	-1,141	-959
Consolidated gross profit	**11,769**	**10,033**
Unallocated expenses:		
Marketing and distribution expenses	-784	-626
Administrative expenses	-6,837	-6,725
Other operating income and expenses	122	1,349
Consolidated operating profit	**4,270**	**4,031**
Finance income	1,277	431
Finance costs	-1,219	-909
Share of profit of equity-accounted investees	585	835
Consolidated profit before tax	**4,913**	**4,388**

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

EUR '000	31 December 2019	31 December 2018
Total assets of reportable segments	106,914	97,613
Investments in equity-accounted investees	2,369	2,266
Inter-segment eliminations	-54	-14
Unallocated assets	8,419	4,272
Total consolidated assets	**117,648**	**104,137**

Geographical information

Revenue (EUR '000)	2019	2018
Estonia	213,300	210,584
Ukraine	4,008	8,222
Finland	10,258	2,393
Sweden	11,060	3,246
Elimination of inter-segment revenues	-4,555	-949
Total revenue	**234,071**	**223,496**

Assets based on geographical location* (EUR '000)	2019	2018
Estonia	37,205	30,446
Ukraine	2,063	2,042
Total assets	**39,268**	**32,488**

* 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.

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NOTE 26. Construction contracts in progress

Financial information on construction contracts in progress at the reporting date

Construction contracts in progress from date of commencement of the projects (EUR '000)	31 December 2019	31 December 2018
Contract costs recognised using the stage of completion method	130,119	103,621
Estimated gross profit	8,462	8,376
Contract revenue recognised using the stage of completion method	138,581	111,997
Progress billings	138,090	107,174
Difference between total progress billings and revenue recognised	**-490**	**-4,822**
Of which due from customers (note 9)	6,874	8,696
Of which due to customers (note 20)	6,384	3,874

Significant changes in amounts due from and due to customers

EUR '000

	Due from customers	Due to customers
Balance at 1 January 2019	**8,696**	**3,874**
Revenue recognised during the period which at the beginning of the period was recognised in the balance of *Due to customers*	-	-3,874
Receivables recognised during the period which at the beginning of the period were recognised in the balance of *Due from customers*	-8,657	-
Remaining difference between revenue recognised and progress billings	6,835	6,384
Balance at 31 December 2019	**6,874**	**6,384**

At the reporting date, retentions receivable under construction contracts totalled 763 thousand euros (31 December 2018: 1,085 thousand euros) (note 9).

Out of the order book of 227,545 thousand euros as at 31 December 2019, 77% will realise in 2020 and 23% in 2021.

NOTE 27. Participation in joint operations

The Group participates in joint operations that are conducted under partnership contracts. The contracts set forth the share of revenue each party is entitled to and the share of expenses to be borne by each partner. The parties have not established companies for conducting the joint operations, therefore each party recognises in its financial statements the assets used 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. All joint operations are in Estonia.

Name of joint operation	Group's interest		Total value of contract	
EUR '000	2019	2018	2019	2018
WOHO commercial and residential building	50%	50%	12,536	12,663
Smarten logistics centre, phase III	-	50%	-	3,913
Omniva logistics centre	-	50%	-	10,002
Porto Franco commercial and business building, concrete works phase I	50%	50%	7,337	7,164
HTR commercial and office building	50%	50%	4,598	4,582
Porto Franco commercial and business building, concrete works phase II	50%	-	6,419	-
Jahu 4/ Suur-Patarei 13 commercial buildings	50%	-	4,970	-
Raadimõisa housing estate, phases I and II	50%	-	7,592	-

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NOTE 28. Revenue

2019

EUR '000	Buildings	Infrastructure	Total
Revenue from contracts with customers	**170,643**	**63,063**	**233,706**
Of which: general contracting services	153,857	51,006	204,863
subcontracting services	10,258	7,446	17,703
own development activities	6,528	0	6,528
road maintenance services	0	3,523	3,523
rental services	0	1,089	1,089
Other revenue	**4**	**0**	**4**
Of which: investment property	4	0	4
Total revenue	**170,647**	**63,063**	**233,710**

2018

EUR '000	Buildings	Infrastructure	Total
Revenue from contracts with customers	**161,975**	**60,086**	**222,061**
Of which: general contracting services	148,913	52,234	201,147
subcontracting services	2,393	3,334	5,727
own development activities	9,369	0	9,369
road maintenance services	0	3,461	3,461
rental services	0	1,057	1,057
investment properties	1,300	0	1,300
Other revenue	**934**	**0**	**934**
Of which: investment property	934	0	934
Total revenue	**162,909**	**60,086**	**222,995**

NOTE 29. Cost of sales

EUR '000	2019	2018
Cost of materials, goods and services	197,831	192,133
Personnel expenses	21,496	19,175
Depreciation expense (note 14)	2,713	1,913
Other expenses	262	242
Total cost of sales	**222,302**	**213,463**

In 2019, the Group had, on average, 687 staff (2018: 687) of whom 663 were working under employment contracts, 6 were working under contracts under the law of obligations (excluding self-employed people) and 18 were members of legal persons' management or control bodies (2018: 667, 2 and 18, respectively).

NOTE 30. Administrative expenses

EUR '000	2019	2018
Cost of materials, goods and services	2,523	2,646
Personnel expenses	3,717	3,757
Depreciation and amortisation expense (notes 14 and 15)	328	77
Other expenses	269	245
Total administrative expenses	**6,837**	**6,725**

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NOTE 31. Other operating income and expenses

Other operating income

EUR '000	Note	2019	2018
Gain on sale of property, plant and equipment	14	258	1,113
Other income		57	358
Total other operating income		**315**	**1,471**

A significant share of the gain on sale of property, plant and equipment in 2018 resulted from the sale of a property with buildings in Keila of 951 thousand euros.

Other operating expenses

EUR '000	Note	2019	2018
Loss on sale and write-off of property, plant and equipment		9	10
Net loss on recognition and reversal of impairment losses on receivables	34	63	16
Foreign exchange loss		16	76
Other expenses		105	20
Total other operating expenses		**193**	**122**

NOTE 32. Finance income and costs

Finance income

EUR '000	2019	2018
Interest income on loans provided	225	278
Foreign exchange gain	1,044	147
Other finance income	8	6
Total finance income	**1,277**	**431**

Interest income on loans provided for the reporting period comprises interest income on loans provided to related parties of 225 thousand euros (2018: 278 thousand euros) (note 37).

Foreign exchange gain comprises exchange gain on the translation of the loans received by the Ukrainian subsidiary in euros into the local currency of 1,044 thousand euros (2018: an exchange loss of 147 thousand euros).

Finance costs

EUR '000	2019	2018
Interest expense	1,002	781
Foreign exchange loss	196	121
Other finance costs	21	7
Total finance costs	**1,219**	**909**

The translation of the loan provided to the Swedish subsidiary in euros into the local currency gave rise to an exchange loss of 196 thousand euros (2018: 121 thousand euros), which is presented in *Foreign exchange loss*.

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NOTE 33. Income tax expense

EUR '000	%	2019	%	2018
Profit for the period		4,149		3,821
Income tax expense		-764		-567
Profit before tax		**4,913**		**4,388**
Income tax using the tax rate of the parent company	-5.05%	-248	-4.15%	-182
Income tax on dividends distributed by Estonian Group entities	-8.12%	-399	-8.20%	-360
Income tax in foreign jurisdictions	-15.31%	-117	-0.57%	-25
Total income tax expense	**-28.48%**	**-764**	**-12.92%**	**-567**

Under the Estonian Income Tax Act, the profits earned and losses incurred by companies operating in Estonia are not subject to income tax.

In 2019, the Group's Estonian subsidiaries paid a net dividend of 1,291 thousand euros, which gave rise to income tax expense of 257 thousand euros (2018: 1,900 thousand euros and 400 thousand euros, respectively). The share of dividends paid to non-controlling interests amounted to 479 thousand euros (2018: 768 thousand euros).

NOTE 34. Financial instruments and financial risk management

Credit risk

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

EUR '000	Note	2019	2018
Cash and cash equivalents	8	7,032	7,678
Trade receivables	9	29,141	21,818
Retentions receivable	9	763	1,085
Receivables from related parties	9	739	2
Loans to related parties	9	8,015	7,780
Other receivables	9	466	471
Due from customers for contract work	9	6,874	8,696
Total		**53,030**	**47,530**

Receivables from third parties are unsecured. The loan provided to V.I. Center TOV is secured with the property held by the entity (note 9). According to the Group's assessment, based on a very low share of credit losses, the credit risk of receivables not past due and receivables past due but not written down is low. The Group's customers include predominantly public sector entities and large companies that have adequate creditworthiness. Among credit institutions, the Group's main business partners are Swedbank AS, Luminor Bank AS and AS SEB Pank. Swedbank AS and SEB Pank AS do not have separate Moody's credit ratings. Swedbank AS's parent Swedbank AB and AS SEB Pank's parent Skandinaviska Enskilda Banken AB both have Moody's long-term credit rating Aa2. Luminor Bank AS has Moody's credit rating Ba1.

Financial assets by geographical origin at the reporting date

EUR '000	2019	2018
Estonia	38,031	36,628
Ukraine	9,678	9,411
Sweden	2,357	580
Lithuania	9	9
Finland	2,955	902
Total	**53,030**	**47,530**

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

		31 December 2019		31 December 2018
EUR '000	Trade receivables	Impairment allowance	Trade receivables	Impairment allowance
Not past due	21,917	0	17,439	0
0-30 days past due	4,657	0	2,357	0
31-180 days past due	699	0	1,295	0
Over 180 days past due *	1,923	-55	731	-5
Total	**29,196**	**-55**	**21,822**	**-5**

* 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

EUR '000	2019	2018
Impairment allowance at 1 January	-5	-9
Impairment losses recognised during the year	-63	-16
Items written off as uncollectible during the year	13	20
Impairment allowance at 31 December	**-55**	**-5**

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In 2019, recognition of impairment losses on receivables and recovery of previously impaired items gave rise to a net loss of 63 thousand euros (2018: 16 thousand euros) (note 31). Items written down comprise a number of small receivables.

During the year, receivables of 13 thousand euros that had been written down in earlier periods were written off as uncollectible (2018: 20 thousand euros).

Liquidity risk

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

EUR '000						31 December 2019
Financial liability*	Carrying amount	Contractual cash flows	Up to 6 months	6-12 month	1-2 years	More than 3 years
Overdraft liabilities (note 16)	14,175	14,787	7,534	1,079	6,173	0
Bank and other loans (note 16)	2,631	2,786	3	0	2,783	0
Lease liabilities (note 17)	10,572	11,230	1,564	1,351	8,112	203
Trade payables (note 18)	40,828	40,828	40,044	686	98	0
Other payables (note 19)	4,865	4,865	4,688	0	177	0
Total	**73,071**	**74,496**	**53,833**	**3,116**	**17,343**	**203**

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

EUR '000						31 December 2018
Financial liability*	Carrying amo	Contractual cash flows	Up to 6 months	6-12 months	1-2 years	More than 3 years
Overdraft liabilities (note 16)	13,671	14,044	5,423	0	8,621	0
Bank and other loans (note 16)	3,462	3,716	181	479	3,056	0
Finance lease liabilities (note 17)	5,409	5,650	1,004	853	2,857	936
Factoring liabilities (note 16)	1,651	1,689	1,689	0	0	0
Trade payables (note 18)	35,052	35,052	31,115	3,839	98	0
Other payables (note 19)	3,693	3,693	3,622	0	71	0
Total	**62,938**	**63,844**	**43,034**	**5,171**	**14,703**	**936**

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

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

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

- an overdraft facility of 228 thousand euros with a fixed interest rate of 4.0% per year;
- an overdraft facility of 272 thousand euros with an interest rate of EONIA plus 3.1% per year;
- an overdraft facility of 750 thousand euros with an interest rate of EONIA plus 3.1% per year.

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Financial liabilities by geographical origin at the reporting date

EUR '000	2019	2018
Estonia	67,467	57,468
Ukraine	2,251	2,801
Sweden	2,187	222
Lithuania	1	1
Finland	495	339
Total	**72,401**	**60,831**

The Group has signed a frame agreement on a reverse factoring arrangement under which subcontractors that do not have sufficient credit standing to obtain a factoring limit from a financial institution may use the Group's limit, which extends to 1,000 thousand euros. At 31 December 2019, 263 thousand euros of this was in use (31 December 2018: the limit was 700 thousand euros and 295 thousand euros was in use).

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 44,397 thousand euros (2018: 32,653 thousand euros). The maturities of the guarantees extend to 2024. According to management's estimates, at the reporting date the risk that the guarantees will be called upon was low. In the reporting period, no guarantees issued by a bank were called upon (2018: 1 guarantee in an amount of 202 thousand euros). In earlier periods (2016-2017) no bank guarantees issued on behalf of the Group were called upon due to the breach of obligations arising from construction activities.

Refinancing of current financial liabilities in 2020

In accordance with the financing plan for 2020, in January 2020 the Group extended borrowings of 127 thousand euros, which at 31 December 2019 were classified as current. The Group estimates that in 2020 it can additionally refinance current borrowings of 6,241 thousand euros before they fall due.

Currency risk

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

			31 December 2019
'000	EUR	SEK	UAH
Cash and cash equivalents	6,898	659	1,917
Current receivables	35,007	28,050	44,472
Non-current receivables	8,435	0	0
Total	**50,340**	**28,709**	**46,389**
Current liabilities	60,799	36,829	66,722
Non-current liabilities	18,026	0	0
Total	**78,825**	**36,829**	**66,722**
Net exposure	**-28,485**	**-8,120**	**-20,333**

			31 December 2018
'000	EUR	SEK	UAH
Cash and cash equivalents	7,144	5,297	559
Current receivables	31,152	1,930	52,920
Non-current receivables	8,225	0	0
Total	**46,521**	**7,227**	**53,479**
Current liabilities	49,714	5,614	132,734
Non-current liabilities	15,981	0	0
Total	**65,695**	**5,614**	**132,734**
Net exposure	**-19,174**	**1,613**	**-79,255**

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

	Date	Swedish krona (SEK)	Ukrainian hryvnia (UAH)
1 euro (EUR)	31 December 2019	10.4468	26.4220
1 euro (EUR)	31 December 2018	10.2548	31.7141

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 for the year and equity at the reporting date. The analysis assumed that all other variables remain constant.

EUR '000	31 December 2019	31 December 2018
Strengthening of euro by 10%	141	213
Weakening of euro by 10%	-172	-260

Interest rate risk

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

EUR '000	2019	2018
Financial instruments with a fixed interest rate		
Financial assets (loans provided to related parties and legal persons) (note 9)	8,015	7,780
Financial liabilities (note 16)	6,241	5,932
Net exposure	**1,774**	**1,848**
Financial instruments with a floating interest rate		
Financial assets (cash and cash equivalents) (note 8)	7,032	7,678
Financial liabilities (including lease liabilities) (notes 16 and 17)	21,137	18,138
Net exposure	**-14,105**	**-10,460**

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

	31 December 2019	31 December 2018
3 month EURIBOR	-0.383%	-0.309%
6 month EURIBOR	-0.324%	-0.237%
EONIA	-0.446%	-0.356%
Bank's base rate	0.275%	0.275%

Potential impact of changes in estimates

An increase or a decrease of 100 basis points in the variable components of the interest rates at the reporting date would increase or reduce subsequent periods' interest expense on interest-bearing financial liabilities by 346 thousand euros (2018: 265 thousand euros). The analysis assumes that all other variables remain constant.

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Fair value

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

EUR '000	2019 Carrying amount	2019 Fair value	2018 Carrying amount	2018 Fair value
Cash and cash equivalents (note 8)	7,032	7,032	7,678	7,678
Trade receivables (note 9)	29,141	29,141	21,818	21,818
Retentions receivable (note 9)	763	763	1,085	1,085
Due from customers (note 9)	6,874	6,874	8,696	8,696
Receivables from related parties (notes 9 and 36)	739	739	2	2
Loans to related parties (notes 9 and 36)	8,015	8,015	7,780	7,780
Other receivables (note 9)	466	466	471	471
Overdraft liabilities (note 16)	-14,175	-14,175	-13,671	-13,671
Bank and other loans (note 16)	-2,637	-2,637	-3,473	-4,084
Lease liabilities (notes 16 and 17)	-10,572	-10,572	-5,409	-5,409
Factoring liabilities (note 16)	0	0	-1,651	-1,651
Trade payables (note 18)	-39,841	-39,841	-32,945	-32,945
Payables to related parties (notes 18 and 37)	-987	-987	-2,107	-2,107
Other payables (note 19)	-4,865	-4,865	-3,693	-3,693

The carrying amounts of the Group's short-term financial assets and liabilities do not differ significantly from their fair values. The carrying amount of loans to related parties is based on the fair value of a property held by the associate. Therefore, their fair value equals their carrying amount. The carrying amounts of long-term floating rate assets and liabilities approximate their fair values because the variable component of the interest rate 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).

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

	2019	2018
Loans received*	-	1.91%

* Based on the statistics of the Estonian Central Bank (interest rates of loans provided by credit institutions to non-financial institutions). At 31 December 2019, the Group did not have any loans with a fixed interest rate.

NOTE 35. Contingent liabilities

Contingent income tax liability

EUR '000	31 December 2019	31 December 2018
Retained earnings	12,383	10,896
Maximum possible income tax liability	-2,441	-2,165
Maximum amount that could be distributed as the net dividend	9,942	8,731

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. At 31 December 2019, the maximum possible income tax liability for 2020 was calculated by applying a 14% tax rate (calculated as 14/86 of the net distribution) to a dividend extending to two thirds of the profit distributed and taxed in 2019 and 2018 and a 20% tax rate (calculated as 20/80 of the net distribution) to the remainder of unrestricted equity. At 31 December 2018, the maximum possible income tax liability for 2019 was calculated by applying a 14% and a 20% tax rate (calculated as 14/86 and 20/80 of the net distribution).

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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 for securing Group entities' commitments under construction contracts totalled 44,397 thousand euros (31 December 2018: 32,653 thousand euros).

Surety commitments

Due to the expiry of underlying obligations, at the reporting date the Group had no surety commitments in respect of the obligations of its associates and non-Group third parties. The parent has issued surety bonds to secure its subsidiaries' lease commitments not recognised in the statement of financial position of 42 thousand euros (31 December 2018: 91 thousand euros).

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 termination 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 2019, the maximum contingent liability that could have arisen from the obligation to pay termination benefits and benefits for observing the prohibition on competition amounted to 657 thousand euros.

NOTE 36. Assets pledged as collateral

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

Commercial pledges

At the reporting date, the parent and the subsidiaries had pledged their movable property under commercial pledges which totalled 47,829 thousand euros (31 December 2018: 47,829 thousand euros).

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

Mortgages

At the reporting date, the total value of mortgages encumbering the Group's immovable property (plots and buildings) was 17,367 thousand euros (31 December 2018: 18,736 thousand euros). The parent and the subsidiaries have mortgaged assets of the following classes:

Line item in the statement of financial position (EUR '000)	31 December 2019	31 December 2018
Inventories	7,975	9,344
Investment property	639	639
Property, plant and equipment (land and buildings)	767	767
Mortgages that cannot be linked to a specific asset class*	7,986	7,986
Total	**17,367**	**18,736**

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

Share pledges

In 2019 and 2018, the Group's borrowings were secured with a pledge of its shares in Tariston AS (100%).

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NOTE 37. Transactions with related parties

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

The Group's purchase and sales transactions with related parties

EUR '000		2019		2018
Counterparty	Purchases	Sales	Purchases	Sales
AS Nordic Contractors	291	0	276	0
Companies of AS Nordic Contractors group	1,344	419	4	8
Companies related to owners of AS Nordic Contractors	576	0	655	0
Associates	2,677	309	5,575	200
Companies related to members of the council	88	0	93	0
Total	**4,976**	**728**	**6,603**	**208**

EUR '000		2019		2018
Nature of transactions	Purchases	Sales	Purchases	Sales
Construction services	2,677	2	4,794	14
Transactions with goods	1,876	307	1,436	164
Lease and other services	340	410	290	30
Other transactions	83	9	83	0
Total	**4,976**	**728**	**6,603**	**208**

Receivables from and liabilities to related parties at period-end (notes 9 and 18)

	31 December 2019		31 December 2018	
EUR '000	Receivables	Liabilities	Receivables	Liabilities
AS Nordic Contractors	0	10	0	10
Companies related to owners of AS Nordic Contractors	0	316	0	164
Companies of AS Nordic Contractors group	495	660	0	0
Associates – receivables and liabilities	244	1	2	2,097
Associates – loans and interest	8,015	0	7,780	0
Total	**8,754**	**987**	**7,782**	**2,271**

In 2019, the Group purchased from a company of AS Nordic Contractors group a property designed for housing development at Särje 22 in Tallinn. The purchase price of the property was 1,300 thousand euros. At 31 December 2019, the purchase price liability was 650 thousand euros.

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

Loan principal and accrued interest receivable from related parties (note 34)

				31 December 2019		31 December 2018	
EUR '000	Related party	Interest rate	Currency	Loan	Of which interest	Loan	Of which interest
V.I. Center TOV	Associate	3.0%	EUR	8,015	896	7780	699
Total				**8,015**	**896**	**7,780**	**699**
Of which non-current portion (note 9)				8,015	896	7,780	699

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During the period, the Group recognised interest income on the given loan to the associate of 216 thousand euros (2018: 269 thousand euros) (note 32). The loan is secured with a mortgage of 7,000 thousand euros (note 9).

Other transactions with related parties

In the reporting period, the Group paid Nõmme Private Education Foundation sponsor support of 83 thousand euros (2018: 83 thousand euros). The foundation is related to a member of the Group's council.

In 2019, the Group received from associates a net dividend of 483 thousand euros (2018: 456 thousand euros). Information on dividends paid by the Group is disclosed in note 22.

Remuneration of the council and the board

The service fees of the members of the council of Nordecon AS for 2019 amounted to 187 thousand euros and associated social security charges totalled 62 thousand euros (2018: 187 thousand euros and 62 thousand euros, respectively).

The service fees of the members of the board of Nordecon AS amounted to 480 thousand euros and associated social security charges totalled 158 thousand euros (2018: 656 thousand euros and 217 thousand euros, respectively).

Information on share options granted to the members of the board is disclosed in note 24.

NOTE 38. Events after the reporting period

Increase in ownership interest in Embach Ehitus OÜ

A change in the capital structure of Nordecon AS's former associate Embach Ehitus OÜ was finalised and entered in the Commercial Registry on 5 March 2020. Through the transaction, Nordecon AS increased its ownership interest to 51% and Embach Ehitus OÜ became a subsidiary of Nordecon AS. The share capital of Embach Ehitus OÜ amounts to 30,000 euros of which 15,300 euros is attributable to Nordecon AS. Embach Ehitus OÜ has been accounted for as a subsidiary and its financial information has been consolidated in the financial statements of Nordecon AS since 1 March 2020

Impacts of the coronavirus disease (COVID-19)

The first reports of a new coronavirus disease (COVID-19) reached the World Health Organization (WHO) from China in December 2019. To date, the virus has spread across the world, causing disruption to societies, businesses and economies. On 11 March 2020, the WHO declared the coronavirus outbreak a pandemic. Since then many countries have declared a state of emergency.

The Group treats the outbreak of the disease as a non-adjusting event after the reporting date. The situation is uncertain and rapidly evolving. Therefore, the Group considers it impracticable to quantify the impact that the coronavirus disease will have on the Group's future operating results. Nor is it possible to estimate whether and to what extent the situation will affect the values of properties acquired for development and investment properties and the carrying amount of goodwill recognised in the Group's statement of financial position (see notes 11, 13 and 15). The effects of the situation will be reported in the Group's financial statements for subsequent periods.

So far, work on the Group's construction sites has not stopped. The Group has done everything within its power to ensure the safety and security of its own employees and those of its business partners. The Group has also implemented cost-cutting measures to be prepared for a possible decrease in business volumes. On the revenue side, it is important that the Group has secured a significant volume of contracts from the public sector. At 31 December 2019, contracts signed with public sector entities accounted for around a third of the Group's order book (contracts signed but not yet performed) (see the section *Order book* in directors' report).

NOTE 39. Parent company's primary financial statements

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

Statement of financial position

EUR '000 As at 31 December	2019	2018
ASSETS		
Current assets		
Cash and cash equivalents	3,397	3,743
Trade and other receivables	17,502	15,930
Prepayments	869	683
Inventories	10,973	11,454
Total current assets	**32,741**	**31,810**
Non-current assets		
Investments in subsidiaries	12,118	11,905
Investments in associates and joint ventures	1,219	1,189
Investment property	0	0
Trade and other receivables	19,483	16,715
Property, plant and equipment	5,600	4,782
Intangible assets	8,308	8,234
Total non-current assets	**46,728**	**42,825**
TOTAL ASSETS	**79,469**	**74,635**
LIABILITIES		
Current liabilities		
Borrowings	8,913	8,180
Trade payables	22,296	16,708
Taxes payable	1,202	680
Other payables	6,242	6,492
Deferred income	2,942	2,688
Provisions	524	798
Total current liabilities	**42,119**	**35,546**
Non-current liabilities		
Borrowings	10,002	11,142
Other payables	6	11
Provisions	455	329
Total non-current liabilities	**10,463**	**11,482**
TOTAL LIABILITIES	**52,582**	**47,028**
EQUITY		
Share capital	14,378	16,321
Own (treasury) shares	-660	-693
Share premium*	1,204	1,186
Statutory capital reserve	2,534	2,534
Retained earnings	9,431	8,259
TOTAL EQUITY	**26,887**	**27,607**
TOTAL LIABILITIES AND EQUITY	**79,469**	**74,635**

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

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Statement of comprehensive income

EUR '000	2019	2018
Revenue	122,041	116,009
Cost of sales	-115,411	-111,236
Gross profit	**6,630**	**4,773**
Marketing and distribution expenses	-604	-379
Administrative expenses	-3,618	-3,781
Other operating income	104	1,358
Other operating expenses	-49	-49
Operating profit	**2,463**	**1,922**
Finance income	1,628	2,177
Finance costs	-779	-1,285
Net finance income	**849**	**892**
Profit before income tax	**3,312**	**2,814**
Income tax expense	**-248**	**-182**
Profit for the period	**3,064**	**2,632**
Total comprehensive income for the period	**3,064**	**2,632**

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Statement of cash flows

EUR '000	2019	2018
Cash flows from operating activities		
Cash receipts from customers[5]	142,546	145,351
Cash paid to suppliers[6]	-128,275	-129,484
Cash paid to and for employees	-7,885	-10,705
VAT paid	-2,072	-3,732
Income tax	-248	-182
Net cash from operating activities	**4,066**	**1,248**
Cash flows from investing activities		
Paid on acquisition of non-current assets	-308	-74
Proceeds from sale of non-current assets	151	1,630
Proceeds from sale of investment property	0	1,300
Capital contributions to subsidiaries and joint ventures	0	-19
Paid on acquisition of subsidiaries	0	-4
Loans provided	-359	-1,349
Repayment of loans provided	529	0
Interest received	93	60
Dividends received	1,058	1,343
Net cash from investing activities	**1,164**	**2,887**
Cash flows from financing activities		
Proceeds from loans received	2,974	2,892
Repayment of loans received	-3,392	-2,808
Payments of the principal portion of lease liabilities	-672	-782
Interest paid	-705	-537
Dividends paid	-1,889	-1,859
Reduction of share capital	-1,892	-1,847
Sale of own shares	0	0
Net cash used in financing activities	**-5,576**	**-4,941**
Net cash flow	**-346**	**-806**
Cash and cash equivalents at beginning of period	3,743	4,549
Decrease in cash and cash equivalents	-346	-806
Cash and cash equivalents at end of period	**3,397**	**3,743**

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

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

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Statement of changes in equity

EUR '000	Share capital	Own shares	Share premium	Statutory capital reserve	Retained earnings	Total
Balance at 31 December 2017	**18,263**	**-1,349**	**1,158**	**2,534**	**7,611**	**28,217**
Profit for the period	0	0	0	0	2,632	2,632
Transactions with non-controlling interests	0	530	0	0	0	530
Exercise of share options	0	71	0	0	0	71
Dividend distribution	0	0	0	0	-1,859	-1,859
Cancellation of dividends	0	0	0	0	-125	-125
Reduction of share capital	-1,942	55	28	0	0	-1,859
Balance at 31 December 2018	**16,321**	**-693**	**1,186**	**2,534**	**8,259**	**27,607**
Carrying amount of interests under control and significant influence	-		-	-	-	-13,093
Value of interests under control and significant influence under the equity method	-		-	-	-	8,529
Adjusted unconsolidated equity at 31 December 2018	-		-	-	-	**23,043**
Balance at 31 December 2018	**16,321**	**-693**	**1,186**	**2,534**	**8,259**	**27,607**
Profit for the period	0	0	0	0	3,064	3,064
Transactions with non-controlling interests	0	0	0	0	0	0
Exercise of share options	0	0	0	0	0	0
Dividend distribution	0	0	0	0	-1,892	-1,892
Cancellation of dividends	0	0	0	0	0	0
Reduction of share capital	-1,943	33	18	0	0	-1,892
Balance at 31 December 2019	**14,378**	**-660**	**1,204**	**2,534**	**9,431**	**26,887**
Carrying amount of interests under control and significant influence	-		-	-	-	-13,336
Value of interests under control and significant influence under the equity method	-		-	-	-	7,680
Adjusted unconsolidated equity at 31 December 2019	-		-	-	-	**21,231**

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Statements and signatures of the board and the council

Statement by the board

The board of Nordecon AS acknowledges its responsibility for the preparation of the Group's consolidated financial statements as at and for the year ended 31 December 2019 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 (13 April 2020) have been properly considered and presented in the consolidated financial statements;
- Nordecon AS and its subsidiaries are going concerns.

Gerd Müller
Chairman of the Board
13 April 2020

Priit Luman
Member of the Board
13 April 2020

Maret Tambek
Member of the Board
13 April 2020

Ando Voogma
Member of the Board
13 April 2020

Statement by the council

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

Toomas Luman
Chairman of the Council
16 April 2020

Andri Hõbemägi
Member of the Council
16 April 2020

Vello Kahro
Member of the Council
16 April 2020

Sandor Liive
Member of the Council
16 April 2020

Meelis Milder
Member of the Council
16 April 2020

Independent Auditors' Report

To the shareholders of Nordecon AS

Report on the Audit of the Consolidated Financial Statements

Opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of Nordecon AS and its subsidiaries (collectively, the Group) as at 31 December 2019, 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.

What We Have Audited

We have audited the Group's consolidated financial statements, which are set out on pages 71 to 134 of Nordecon AS Group annual report. The consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2019;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated of statement of cash flows for the year then ended;
- the consolidated statement of changes in equity for the year then ended; and
- the notes to the consolidated financial statements, comprising significant accounting policies and other explanatory information.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (Estonia). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Estonia, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Audit Scope

Because we are solely responsible for our audit opinion, we are also responsible for the direction, supervision and performance of the group audit. In this respect, we determined the type of work to be performed on the financial information of the entities (components) within the Group based on their financial significance and/or other risk characteristics.

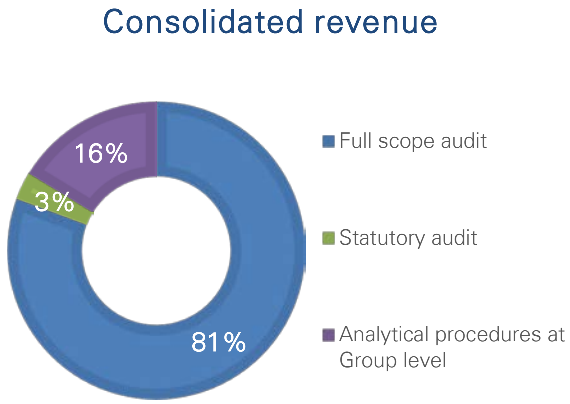
We, as Group auditors, determined six of the Group's 24 entities to be significant Group components. All of the significant components are located in Estonia. A full-scope audit was performed for four of these components: Nordecon AS, Nordecon Betoon OÜ and AS Tariston. For the remaining three significant components (based on the risk characteristics), AS Eston Ehitus, OÜ Kalda Kodu and OÜ Eurocon, we conducted audits of selected account balances at Group level.

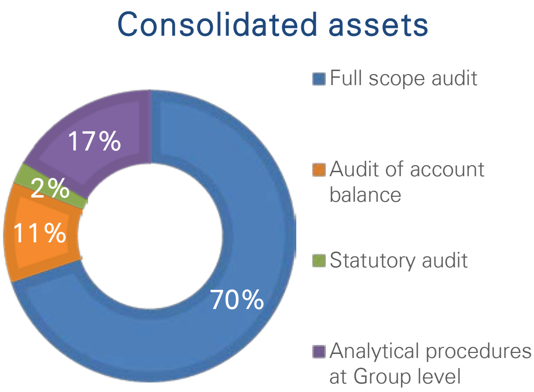
For OÜ Kaurits, we used the results of the statutory audits conducted in accordance with Estonian legislation. OÜ Kaurits was not individually significant from the point of view of the Group but the statutory audit was required by local legislation.

For the remaining 17 non-significant components, we performed analytical procedures at Group level to re-examine our assessment that there were no significant risks of material misstatement within them.

We also performed procedures over the consolidation process at Group level.

Coverage of consolidated revenue and consolidated total assets with procedures performed:





The audit work on the financial information of Nordecon AS, Nordecon Betoon OÜ, AS Tariston and OÜ Kaurits and the audits of selected account balances in respect of AS Eston Ehitus, OÜ Kalda Kodu and OÜ Eurocon were performed by the KPMG Group audit team in Estonia. The work over the financial information of the remaining components was performed by KPMG component auditors in Finland and Sweden. The Group audit team instructed component auditors about the areas to be covered and determined the information required to be reported to the group audit team. We had regular communication with component auditors and executed audit file reviews, where necessary.

By performing the above procedures over the Group entities, together with additional procedures at the Group level, we have been able to obtain sufficient and appropriate audit evidence to form an opinion on the consolidated financial statements as a whole.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Valuation of the long-term loan provided to the Ukrainian associate	
Refer to notes 5 and 9 of the consolidated financial statements.	
The key audit matter	**How the matter was addressed in our audit**
The consolidated statement of financial position as at 31 December 2019 includes the loan provided to the Group's Ukrainian	In this area, we conducted, among others, the following audit procedures:

associate with the carrying amount of 8,099 thousand euros (the loan provided to V.I. Center TOV). The loan was provided for the acquisition and development of a property (plot of land) near Kiev. The Group and the co-owners of V.I. Center TOV have created mortgages on the property owned by the investee in order to safeguard their investments in the property and secure their loans. The ability of the Ukrainian associate to repay this loan depends on the realisation of the development project; and therefore, the value of the loan also depends on the fair value of the underlying property. Ukraine's political and economic situation continues to be uncertain and the events in the country may have a significant impact on the recoverability of the loan and, therefore, on the Group's financial results as explained in note 5. We assessed this area to be a key audit matter as the recoverable amount of the loan is highly sensitive to the changes in the key valuation assumptions applied and may thus have a material effect on the Group's financial results.	• We assessed the valuation report of the property prepared by the external appraiser engaged by the Group, considering the valuation methodology applied as well as the appraiser's competence, skills and objectivity; • Assisted by our own valuation specialists, we assessed the valuation model of the property for mathematical accuracy and the appropriateness of the model against the requirements of the relevant financial reporting standards; • We challenged the reasonableness of the key valuation assumptions and estimates applied by the appraiser by reference to our understanding of the Group's operations and of the economic situation in Ukraine. In the areas where the appraisers had relied on market-based inputs, such as the rental prices, vacancy and discount rates, we compared the inputs with the data available from external sources (such as publicly available market research by real estate appraisal agencies). We also made alternative calculations for the discount rate (WACC – weighted average cost of capital), based on available market data, and compared it to the rate used in the valuation model. • We assessed the appropriateness of the model used to assess the value of the loan provided and the reasonableness of the key inputs used by management. • We carried out an analysis of the sensitivity of the valuations to changes in the key model inputs, including the discount rate and the time of completion of the development project; • We assessed the adequacy of the related disclosures in the consolidated financial statements (including in respect of the sensitivity of the valuation results to changes in the key assumptions).

Valuation of goodwill

Refer to notes 2 and 15 of the consolidated financial statements.

The key audit matter	How the matter was addressed in our audit
The Group's consolidated statement of financial position as at 31 December 2019 includes goodwill in the amount of 14,176 thousand euros, further discussed in note 15. The goodwill has been allocated to five cash-generating units (CGUs). Relevant	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;

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 was 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.	• 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.

Other Information

Management is responsible for the other information. The other information comprises the Management 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. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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 the 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 judgment 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, 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, related safeguards.

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 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

We were appointed by those charged with governance on 26 April 2017 to audit the consolidated financial statements of Nordecon AS for the periods ending 31 December 2017 to 31 December 2019. Our total uninterrupted period of engagement is 14 years, covering the periods ending 31 December 2006 to 31 December 2019.

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 Regulation (EU) No. 537/2014. We also remained independent of the audited entity in conducting the audit.

Tallinn, 13 April 2020

Andris Jegers

Certified Public Accountant, Licence No. 171

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Profit allocation proposal

Distributable profit of Nordecon AS

	EUR '000
Retained earnings of prior periods	9,005
Profit for 2019	3,378
Total distributable profit at 31 December 2019	**12,383**

The management board proposes that profit be retained.

Gerd Müller	Chairman of the Board	13 April 2020
Priit Luman	Member of the Board	13 April 2020
Maret Tambek	Member of the Board	13 April 2020
Ando Voogma	Member of the Board	13 April 2020

GRI content index

The Group has prepared its annual report in accordance with the internationally recognised and widely used GRI (Global Reporting Initiative) Sustainability Reporting Standards 2016 and 2018. 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 Eston Ehitus AS, Nordecon Betoon OÜ, Tariston AS, Kaurits OÜ, NOBE Rakennus Oy, SweNCN AB and Eurocon Ukraine TOV unless otherwise stated.

In addition to the approaches to managing social responsibility topics described in this report, the approaches for some aspects which apply to 2019 are described in more detail in the Group's annual reports for 2017 and 2018.

GRI standard	Disclosure number	Disclosure	Location in report and/or explanation
Foundation (GRI 101: 2016)			
General disclosures (GRI 102: 2016)			
Organizational profile			
	102-1	Name of the organization	Page 1
	102-2	Activities, brands, products, and services	Pages 1, 4, 17-22
	102-3	Location of headquarters	Page 1
	102-4	Location of operations	Pages 12-13, 18-19
	102-5	Ownership and legal form	Pages 4, 64-66
	102-6	Markets served	Pages 12-13, 18-22
	102-7	Scale of the organization	Pages 5, 19-25, 35, 70
	102-8	Information on employees and other workers	Page 35 (data is disclosed in as much detail as is required for outlining differences between different employee and other worker categories)
	102-9	Supply chain	Page 43-44 (Group entities build assets (1) according to design documents and terms of reference provided, (2) using materials and products from Estonian and foreign producers and suppliers, and (3) with own or subcontractors' workforce to (4) ensure on-time and proper completion and delivery, including (5) fulfilment of obligations during the warranty period)
	102-10	Significant changes to the organization and its supply chain	Pages 17
	102-11	Precautionary principle or approach	Pages 16, 44-47
	102-12	External initiatives	Pages 29, 41, 45
	102-13	Membership of associations	Page 50
Strategy			
	102-14	Statement from senior decision-maker	Pages 6-8
Ethics and integrity			
	102-16	Values, principles, standards, and norms of behaviour	Pages 4, 55-63
	102-17	Mechanisms for advice and concerns about ethics	Pages55-56

Governance			
	102-18	Governance structure	Pages 53-55 (ultimate responsibility for matters related to social and environmental impacts rests with the board of Nordecon AS)
Stakeholder engagement			
	102-40	List of stakeholder groups	Page 10
	102-41	Collective bargaining agreements	The employees of Group entities do not belong to trade unions; thus, there are no collective bargaining agreements.
	102-42	Identifying and selecting stakeholders	Page 10
	102-43	Approach to stakeholder engagement	Pages 10, 30, 33-34, 37-39, 43-44, 50-51
	102-44	Key topics and concerns raised	Pages 10-11
Reporting practice			
	102-45	Entities included in the consolidated financial statements	Pages 17, 144
	102-46	Defining report content and topic boundaries	Pages 10-11
	102-47	List of material topics	Pages 10-11
	102-48	Restatements of information	No restatements have been made.
	102-49	Changes in reporting	The report covers the same topics as the report for the prior period
	102-50	Reporting period	Page 1
	102-51	Date of most recent report	The previous annual report was released on 2 May 2019.
	102-52	Reporting cycle	The report is published once a year.
	102-53	Contact point for questions regarding the report	Andri Hõbemägi, andri.hobemagi@nordiccontractors.com
	102-54	Claims of reporting in accordance with the GRI Standards	The report has been prepared in accordance with the GRI Standards: Core option.
	102-55	GRI content index	Pages 144-147
	102-56	External assurance	Third parties have not expressed assurance on the report's compliance with the GRI requirements.
Sustainability focus topics			
Quality and customer experience			
Management approach (GRI 103: 2016)	103-1 until 103-3		Pages28-30, 33
	non-GRI	Customer satisfaction	Page 33
Management quality			
Management approach (GRI 103: 2016)	103-1 until 103-3		Pages 39
	non-GRI	Management training for senior managers	Page 39
Innovation			
Management approach (GRI 103: 2016)	103-1 until 103-3		Pages 31-33
	non-GRI	Usage of BIM in projects	Page 33
Environmental impact of ready-made buildings and sites			
Management approach (GRI 103: 2016)	103-1 until 103-3		Page 48
	non-GRI	Energy labels and environmental standards	Page 48

Economic performance (GRI 201: 2016)			
Management approach (GRI 103: 2016)	103-1 until 103-3		Pages 23-24
	201-1	Direct economic value generated and distributed	Pages 23-25, 27, 36, 52, 71-73
Anti-corruption (GRI 205: 2016)			
Management approach (GRI 103: 2016)	103-1 until 103-3		Pages 55-56
	205-3	Confirmed incidents of corruption and actions taken	Page 56
Energy (GRI 302: 2016)			
Management approach (GRI 103: 2016)	103-1 until 103-3		Page 47
	302-1	Energy consumption within the organization	Page 47 (disclosures include data on the largest sources of energy and fuel consumption)
Biodiversity (GRI 304: 2016)			
Management approach (GRI 103: 2016)	103-1 until 103-3		Page 47
	304-1	Operational sites owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas	Page 47
Emissions (GRI 305: 2016)			
Management approach (GRI 103: 2016)	103-1 until 103-3		Page 47
	305-1	Direct (Scope 1) GHG emissions	Page 47 (disclosures include data on the largest sources of emissions)
	305-4	GHG emissions intensity	Page 47
Effluents and waste (GRI 306: 2016)			
Management approach (GRI 103: 2016)	103-1 until 103-3		Pages 45-46
	306-3	Significant spills	Page 47
Environmental compliance (GRI 307: 2016)			
Management approach (GRI 103: 2016)	103-1 until 103-3		Page 44-45
	307-1	Non-compliance with environmental laws and regulations	Page 45
Supplier environmental assessment (GRI 308: 2016)			
Management approach (GRI 103: 2016)	103-1 until 103-3		Pages 43-44
	308-2	Negative environmental impacts in the supply chain and actions taken	Page 43-44
Employment (GRI 401: 2016)			
Management approach (GRI 103: 2016)	103-1 until 103-3		Pages 35-37
	401-1	New employee hires and employee turnover	Page 35 (data is disclosed in as much detail as is collected by Group companies in line with the concept of materiality)
	non-GRI	Employee satisfaction and feedback	Page 38-39
	non-GRI	Interns	Page 37
Occupational health and safety (GRI 403: 2018)			
Management approach (GRI 103: 2016)	103-1 until 103-3		Pages 41-42
	403-1 until 403-7		Pages 41-42
	403-9	Work related injuries	Page 41 (data is disclosed in as much detail as is collected by Group companies in line with the concept of materiality)

Training and education (GRI 404: 2016)			
Management approach (GRI 103: 2016)	103-1 until 103-3		Pages 39
	404-1	Average hours of training per year per employee	Page 39 (data is disclosed in as much detail as is collected by Group companies in line with the concept of materiality)
Diversity and equal opportunity (GRI 405: 2016)			
Management approach (GRI 103: 2016)	103-1 until 103-3		Pages 35, 39-40, 62
	405-1	Diversity of governance bodies and employees	Pages 35, 39-40, 53-55 (data is disclosed in as much detail as is required for outlining differences between different employee categories)
Non-discrimination (GRI 406: 2016)			
Management approach (GRI 103: 2016)	103-1 until 103-3		Page 39-40
	406-1	Incidents of discrimination and corrective actions taken	Page 40
Local Communities (GRI 413: 2016)			
Management approach (GRI 103: 2016)	103-1 until 103-3		Pages 34, 50-52
	413-1	Operations with local community engagement, impact assessments, and development programs	Pages 50-52
	413-2	Operations with significant actual and potential negative impacts on local communities	Pages 34
	non-GRI	Complaints received from surrounding inhabitants regarding disturbing construction activities	Page 34
Supplier social assessment (GRI 414: 2016)			
Management approach (GRI 103: 2016)	103-1 until 103-3		Pages 43-44
	414-2	Negative social impacts in the supply chain and actions taken	Page 43-44
Public policy (GRI 415: 2016)			
Management approach (GRI 103: 2016)	103-1 until 103-3		Pages 55-56
	415-1	Political contributions	Page 56
Customer health and safety (GRI 416: 2016)			
Management approach (GRI 103: 2016)	103-1 until 103-3		Page 28
	416-2	Incidents of non-compliance concerning the health and safety impacts of products and services	Page 28
Socioeconomic compliance (GRI 419: 2016)			
Management approach (GRI 103: 2016)	103-1 until 103-3		Pages 55-56
	419-1	Non-compliance with laws and regulations in the social and economic area	Page 56