NORDECON

Group annual report 2020

NORDECON

Group annual report 2020

Business name	Nordecon AS
Registry number	10099962
Address	Toompuiestee 35, 10133 Tallinn
Domicile	Republic of Estonia
Telephone	+372 615 4400
E-mail	nordecon@nordecon.com
Corporate website	www.nordecon.com
Core business lines	Construction of residential and non-residential buildings (EMTAK 4120) Construction of roads and motorways (EMTAK 4211) Road maintenance (EMTAK 4211) Construction of utility projects for fluids (EMTAK 4221) Construction of water projects (EMTAK 4291) Construction of other civil engineering projects (EMTAK 4299)
Financial year	1 January 2020 – 31 December 2020
Council	Toomas Luman (chairman of the council), Andri Hõbemägi, Vello Kahro, Sandor Liive, Andre Luman
Board	Gerd Müller (chairman of the board), Priit Luman, Maret Tambek
Auditor	KPMG Baltics OÜ

Contents

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 2020

€296m Revenue (2019: €234m)	**26.5%** Revenue growth, year on year (2019: 4.7%)	**€216m** Order book at the year-end (2019: €227m)
€237m Value of new contracts signed (2019: €306m)	**136** Projects delivered to customers (2019: 130)	**708** Employees (2019: 687)
19 / 0 Accidents / Fatal injuries at work (incl. subcontractors) (2019: 19 / 0)	**0** Environmental pollution, discrimination and corruption incidents (2019: 0)	**€0.2m** Donations to community projects and charities (2019: €0.3m)

Awards and public recognition

- Cultural Endowment of Estonia Grand Prize in Architecture: Estonian Academy of Security Sciences Learning Centre in Narva
- Wood Building of the Year 2020: Saue Municipal Office (Embach Ehitus); Arcwood Special Award for Use of Glued Laminated Timber: Estonian Academy of Security Sciences Learning Centre in Narva (Nordecon AS)
- Named by the Digital Construction Cluster as the Deed of the Year 2020: Terminal D in Old City Harbour
- A nominee for the Best Digital Innovation Project 2020 award set up by the Ministry of Economic Affairs and Communications: Terminal D in Old City Harbour
- A nominee for the Construction Project of the Year 2020 award: Estonian Academy of Security Sciences Learning Centre in Narva
- Top most competitive construction companies in Estonia according to the Estonian Chamber of Commerce and Industry: Nordecon AS, second place
- Highest-rated employers according to technology students in the most attractive employers survey conducted by Instar EBC among the students of higher and vocational education institutions in 2020: Nordecon AS, first place
- Winner of the Battle of Corporate Bands 2020: The Great Nordecon Band

Estonian Academy of Security Sciences Learning Centre in Narva (Nordecon AS)

Letter from chairman of the council

The situation in the construction market is quite unprecedented. On the one hand, four years of market growth and successful bidding for new contracts enabled us to break all our previous revenue records in 2020. For the first time, Nordecon delivered construction services of nearly €300 million per year across the four countries where we operate. Also, all of us remember how countries responded to the COVID-19 pandemic in the spring. Overnight we were faced with completely new priorities – how to protect the health of our employees both in the office and on our numerous construction sites, how to create a safe work environment for our subcontractors and how to complete projects for our customers despite disruptions in the supply chains. Revenue figures do not lie – considering the circumstances, we did exceptionally well in terms of maintaining the pace of construction work and meeting our targets and commitments under construction contracts.

From the point of view of value added, on the other hand, the year was much more uneven. Although productivity per employee improved by around 3% over the year, the rise in value added was mainly driven by growth in personnel expenses and depreciation while operating profit per employee decreased. It is economically acceptable that in a construction market which has been growing rapidly there is upward pressure on labour costs. However, as the representative of the controlling shareholder, I have to admit that the decline in operating margin is not as acceptable. Streamlining and improving the efficiency of the core processes must remain management's top priority. Particularly, as the economic environment will stay uncertain, at least for the foreseeable future.

Already in the in the middle of last year I expressed my conviction that the construction market will hit the bottom in 2022 and my opinion has not changed. Yes, Nordecon delivered a historic revenue record in 2020 and in the second half-year it was again difficult to find subcontractors for certain projects – as if we were again in the growth phase. However, there are also some less visible negative trends. Firstly, demand from the private sector has dropped sharply, which increases the role of the public sector in the procurement of construction work, making it vital that the planned investment volumes are maintained and the financing available from the EU structural funds is used effectively. Secondly, the number of people employed in the construction sector is decreasing rapidly, reflecting a notable slowdown in certain subsegments. The ongoing housing boom is an indicator of people's investment behaviour rather than the robust health of the construction market. Thus, there is no doubt that Nordecon will have to face a number of external challenges. This, in turn, means that we need to be in good shape, make smart choices and seize every opportunity to improve our operating efficiency.

Toomas Luman

Chairman of the Council

Group chief executive's letter

The year 2020 was a period of strong revenue growth for the Nordecon group. All our entities contributed and the group's foreign revenues doubled, particularly thanks to our Swedish operations. However, the COVID-19 pandemic, which affected the economy including the construction sector, lowered our profitability. Due to weaker demand, competition increased in all segments, putting pressure on the margins of construction services. In such an environment, it is more critical than ever to digitalise activities and tap internal resources to remain competitive and sustainable. We have made significant decisions aimed at internal streamlining, cost-cutting and improving our operating efficiency, the impacts of which should extend to the future, when the market is going to recover.

In the European Union, the output of the construction sector contracted by 8.5%. In Estonia, the decline was 3%, which is less than expected. The volume of new contracts signed by the Nordecon group dropped in the second and third quarter but the fourth quarter brought recovery and by the year-end our order book was comparable to the end of 2019.

The restrictions imposed in connection with COVID-19 have caused delays and disrupted our usual operations. The delays are mostly attributable to longer delivery times for building materials and the need to reorganise work due to the virus containment and self-isolation requirements. Our foreign operations have also been affected by travel restrictions, which have had a strong impact on the movement of people, requiring us to rearrange our work and overcome certain management challenges. All these factors have had an adverse effect on our profit margins.

The Estonian construction market developed relatively positively in 2020 but this was mainly due to continuing demand in the infrastructure segment. Building construction, which had grown vigorously through the first quarter, experienced a sharp decline, which stopped only in the fourth quarter when demand in the housing market recovered and work on several developments, which had slowed down for a while, resumed. It is likely that housing development will remain the main engine in building construction through 2021. Demand from the private sector will stay subdued while the volume of work procured by the public sector will remain at the same level as in the past two years because there are not enough newly designed buildings which could fuel demand in the segment.

Despite the decline in construction volumes and the number of people employed in the sector, there is still a lack of qualified engineers and skilled labour. The attractiveness of the sector depends largely on market players' ability to modernise their operations and to improve their productivity, that is to digitalise and to reduce their labour intensity. Nordecon has set itself a clear goal to be a leader of innovation in the construction industry and among the first users of new solutions. We see this as an opportunity to improve the image of the construction sector and to make the construction engineer's profession appealing to young talent by showing its future potential.

In 2020, the group's revenue grew by 26.5%, operating profit decreased and net profit remained stable. Our target is to achieve and maintain a 3% operating margin. To achieve this, we have to increase the margin of our construction operations and keep fixed costs under control.

One of the cornerstones of our strategy is to offer a broad spectrum of services, that is, to be represented in most construction segments in order to deliver long-term and balanced growth. Despite the unprecedented environment of 2020, our order book for 2021 and 2022 is strong, allowing us to develop sustainably and to move on to achieving our long-term goals.

I thank all people working for the Nordecon group for their commitment and contribution to the development of the company, all business partners with whom we create complete high-quality living environments, and all 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 per year.
- We will, on average, distribute at least 30% of profit for the year as dividends.

Social responsibility

An organisation's social responsibility is determined by the decisions made by its members. Our employees' daily engineering and ethical choices provide the foundation which enables the entire organisation to contribute to creating effective, efficient and sustainable solutions.

We are aware that society's expectations regarding responsible corporate governance and business operations' more positive environmental and social impacts are consistently growing. In addition to the public sector, the private sector has started to pay more attention to these matters. This is a broad-based trend and we have to improve our capacity to meet those expectations.

Nordecon observes all applicable standards and requirements: from laws and regulations to honest contractual relations – this is the cornerstone of our corporate social responsibility. However, as a public company, we feel that it is our duty to exceed the requirements. This enables us to contribute more actively to the development of the construction sector and to set a good example to other market players.

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

In the next few years, we are planning to invest in the responsible management of our construction sites with a particular focus on safety, efficient work arrangement, communication with stakeholders, sustainability and environmental awareness. Due to the state of emergency in 2020, major steps in this area had to be postponed.

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

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

Market trends

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

Estonian construction market in 2020

Estonian construction companies' turnover decreased by 6% in total and by 3% in the Estonian construction market. According to the preliminary data of Statistics Estonia, Estonian construction companies' total output in Estonia and abroad amounted to €3 billion in 2020, the figure comprising building construction of €2.1 billion and infrastructure construction of €0.9 billion. Building construction declined by 7% while infrastructure construction decreased by 5% year on year. Both the Estonian and foreign construction markets were strongly affected by a slowdown in building construction. The output of Estonian construction companies' foreign operations declined by almost a third, accounting for 6% of their total output in 2020 compared with 8% in 2019. The construction of new dwellings has been growing since 2012. According to the Estonian Building Register, 7,579 new dwellings received a permit of use in 2020, a rise of 565 on 2019. Most of the new dwellings (61%) were in apartment buildings. Three- to five-floor apartment buildings were the most popular types of residential buildings and the majority of new dwellings had either three or four rooms. The average area of a new dwelling was 93 square meters. As in earlier years, most of the new dwellings were located in Tallinn, followed by the surrounding municipalities and Tartu county. Demand for new dwellings remains stable. The number of construction permits issued for dwellings in 2020 was 8,833. The number of new non-residential premises that received a permit of use was 1,352 and their total usable area was 0.9 million square metres. Growth was the strongest in the commercial, warehouse and industrial space segments. Compared to 2019, both the area and capacity of non-residential premises that received a permit of use increased.

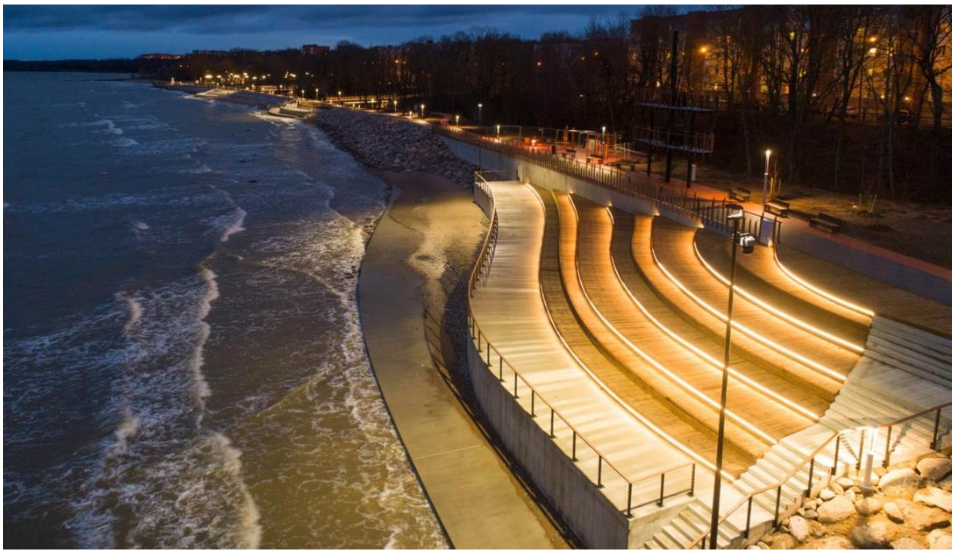
Peetri Park (Nordecon AS)

Outlooks of the group's geographical markets

Estonia

Processes and developments characterising the Estonian construction market:

- Public investments, which have a strong impact on the construction market, are expected to increase in 2021. The market as a whole will be increasingly influenced by investments made by the largest public sector entities (the state-owned real estate company Riigi Kinnisvara AS, the Transport Administration, the Centre for Defence Investment, etc.) which will reach the signature of a construction contract in 2021, because due to the adverse impacts of the COVID-19 pandemic private sector investment will remain weak. Only the housing segment will see certain recovery because demand for new dwellings has not decreased significantly. The construction market will continue to contract at a moderate pace and the trend is likely to persist in the coming years.
- Competition will remain fierce across the construction market, intensifying in specific segments based on market developments. This is reflected in the consistently high number of bidders for construction contracts that has grown even further during the economic downturn. Recent years' rapid rise in input prices was halted by a fall in new private sector contracts that hit the market in the second and third quarters of 2020. However, prices began to edge upward again in the fourth quarter, supported by a surge in the prices of raw materials such as steel. The construction sector's continuing shortage of skilled and qualified labour and growing labour costs will sustain growth in construction prices even in a moderately shrinking market. The construction market grew dramatically in 2018 and 2019 (compared to earlier periods). Thus, despite the slight downtrend which emerged in 2020, construction volumes are still at the past decade's highest levels. In an environment of continuously growing materials and labour costs, it is essential to focus not only on the usual activities that improve competitiveness but also on cost management and the capacity to respond swiftly to market changes.
- In housing development, the success of a project will depend on the developer's ability to control the input prices included in the business plan and, thus, to set sales prices that are affordable for prospective buyers. A somewhat cautious market sentiment, credit institutions' more limited financing of buyers, and the COVID-19 pandemic, which has triggered an economic downturn and growth in unemployment, are prolonging real estate sales.
- There is often a striking contrast between the stringent terms of public construction contracts, which impose numerous obligations, strict sanctions, different financial guarantee commitments, etc., and the modest eligibility criteria. 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 period.
- The shortage of skilled and qualified labour (including project and site managers) did not decrease in 2020 and the sector continues to need additional competent professionals, including foreign labour whose contribution has supported recent years' market growth. Labour mobility is currently restricted due to the COVID-19 pandemic and foreign workers who have gone to their home countries are finding it difficult to return.



Waterfront promenade in Sillamäe (Nordecon AS)

Ukraine

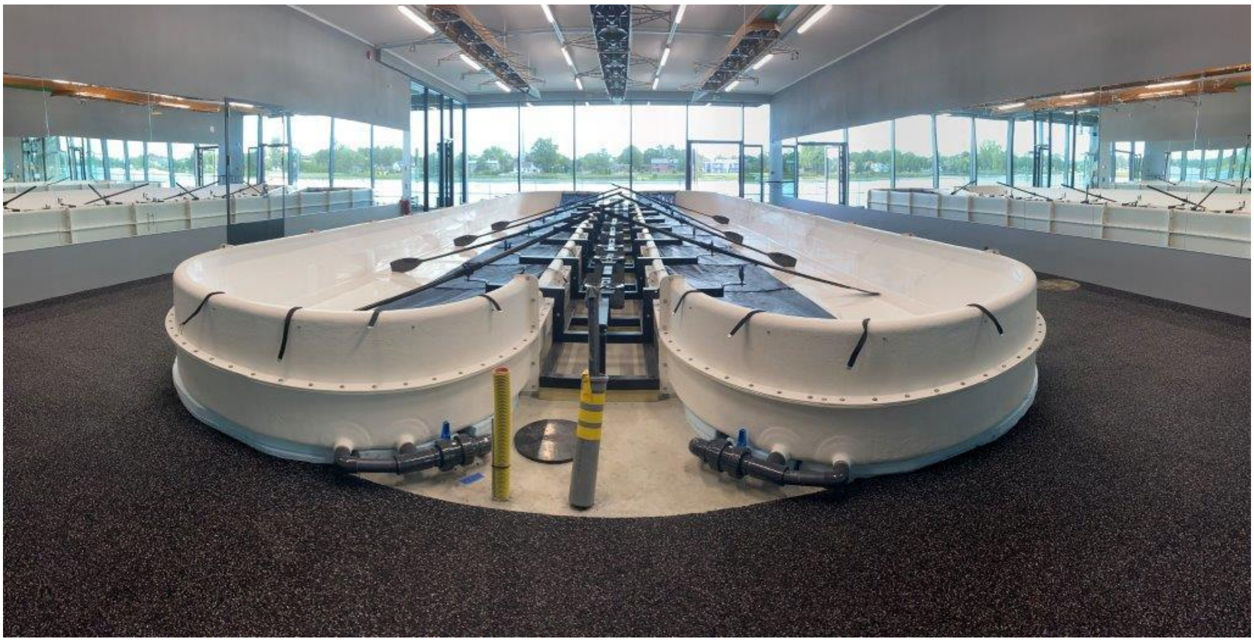
In Ukraine, we are mainly involved in general contracting and project management in the segment of building construction. Political and economic instability continues to restrict the adoption of business decisions but construction activity has increased in recent years. We expect that in 2021 our business volumes in Ukraine will remain at a level comparable to 2020. We assess the situation in the Ukrainian construction market regularly and are ready to restructure our operations as and when necessary. We continue to seek opportunities to exit our two real estate projects, which have been put on hold, or signing a construction contract with a prospective new owner.

Finland

In Finland, we have been offering mainly subcontracting services in the concrete work segment. The local concrete work market allows competing for projects where the customer wishes to source all concrete works from one reliable partner. However, in the past two years we have also secured some smaller general contracts. Our policy is to maintain a rational approach and avoid excessive risks, particularly in an environment of the COVID-19 pandemic, which has increased pressure on profit margins.

Sweden

In the Swedish market, we offer mainly the construction of residential and non-residential buildings in the central part of the country. In gaining experience in the new market, we have prioritised quality and adherence to deadlines, which has left its mark on profitability. The decline in real estate prices that emerged in 2018 has reduced demand for housing construction. As a result, the starting dates of many projects have been postponed. Compared to the peak in 2017, housing construction volumes have dropped by around a third. The slowdown has hit the Stockholm area the hardest. Even though the worst downturn seems to be over, there are no signs of growth and housing construction volumes are expected to shrink further in 2021. The trend is also influenced by the COVID-19 pandemic: there are signs that customers are deferring their investment decisions until the situation has stabilised.



Main building of Rääma Rowing Centre (Eston Ehitus AS)

Description of the main risks

Business risks

The main factors which affect the group's business volumes and profit margins are competition in the construction market and changes in the demand for construction services. The 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. The construction market is also strongly affected by the COVID-19 pandemic, which has slowed down private investment.

Competition continues to be stiff in all segments of the construction market. Bid prices are under strong competitive pressure and bidders increasingly include not only rival general contractors but also former subcontractors. This is mainly attributable to the central and local governments' policy to keep the eligibility requirements for public contracts low. As a result, quality and timely completion are sometimes sacrificed to the lowest price. We acknowledge the risks involved in performing contracts signed in an environment of stiff competition and the current economic uncertainties. In setting 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 our business model, Nordecon operates in all segments of the construction market. Therefore, we are somewhat better positioned than companies that operate in only one narrow segment.

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. Our long-term goal is to be flexible and keep our 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 2020, the group's warranty provisions (including current and non-current) totalled €1,309 thousand (31 December 2019: €1,314 thousand).

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

Financial risks

Credit risk

Credit losses of the period totalled €157 thousand. In 2019, credit losses amounted to €63 thousand. The overall credit risk exposure of the portfolio of receivables is low because the solvency of prospective customers is evaluated, the share of public sector customers is large and customers' settlement behaviour is continuously monitored. The main indicator of the realisation of credit risk is a settlement default that exceeds 180 days along with no activity on the part of the debtor that would confirm the intent to settle.

Liquidity risk

The group remains exposed to higher than usual liquidity risk. At the reporting date, the group's current ratio was 1.01 (31 December 2019: 1.01). The key factor that 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 12 months.

Because the political and economic situation in Ukraine continues to be complicated, we believe that the group's Ukrainian investment properties cannot be realised in the short term. Accordingly, the loan receivable from the Ukrainian associate of €8,237 thousand was classified as a non-current asset at the reporting date.

For better cash flow management, we use overdraft facilities and factoring by which we counter the mismatch between the settlement terms agreed with customers and subcontractors. Under IFRS EU, borrowings have to be classified into current and non-current based on contract terms in force at the reporting date. At 31 December 2020, the group's short-term borrowings totalled €18,508 thousand (31 December 2019: €11,058 thousand). A significant share of short-term borrowings is made up of bank overdrafts, of which overdrafts of €6,205 thousand have been extended for the next 12 months after the reporting date.

The group's cash and cash equivalents as at the reporting date amounted to €12,576 thousand (31 December 2019: €7,032 thousand).

Interest rate risk

The group's interest-bearing liabilities to banks have both fixed and floating interest rates. Lease liabilities have mainly floating interest rates. The base rate for most floating-rate contracts is EURIBOR. Compared to 2019, the group's interest-bearing borrowings have decreased by €1,523 thousand. Both loan and lease liabilities have decreased. Interest-bearing borrowings totalled €25,860 thousand at 31 December 2020 (31 December 2019: €27,384 thousand). Interest expense for the year amounted to €1,078 thousand (2019: €1,002 thousand).

The main source of interest rate risk is a possible rise in the base rates of floating interest rates. In the light of the group's relatively heavy loan burden, this would increase interest expense significantly, which would have an adverse impact on profit. We mitigate the risk by pursuing a policy of entering, where possible, into fixed-rate contracts when the market interest rates are low. As regards loan products offered by banks, observance of the policy has proved difficult and most new contracts have floating interest rates. 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 the euro (€), the Ukrainian hryvnia (UAH) and the Swedish krona (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 weakened against the euro by approximately 24% in 2020. As a result, the group's Ukrainian subsidiaries, which have to translate their euro-denominated loans into the local currency, recognised a foreign exchange loss of €1,485 thousand (2019: a gain of €1,044 thousand). Exchange gains and losses on financial instruments are recognised in finance income and finance costs, respectively. The translation of receivables and liabilities from operating activities did not give rise to any exchange gains or losses.

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

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

The Swedish krona strengthened against the euro by around 4% in 2020. Due to the change in the krona/euro exchange rate, the translation of receivables and liabilities related to operating activities resulted in an exchange loss of €48 thousand (2019: €16 thousand). The exchange loss has been recognised within 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 €24 thousand (2019: €196 thousand). The exchange loss has been recognised within finance costs.

We have not acquired derivatives to hedge currency risk.

Employee and work environment risks

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

We strive to minimise the health and safety risks of people working on our construction sites, including our own teams and those of our subcontractors, by applying all measures required by law and our own management systems. Subcontractors are responsible for ensuring the safety of their operations and 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 risks are asphalt plants, quarries used for the extraction of construction materials and road construction operations. The main environmental protection measures on construction sites include efficient use of materials and proper waste management. Excessive waste, leakage, spillage, pollution, destruction of wildlife and other damage to the environment is prevented by complying with legal requirements. All of the group's construction entities have implemented environmental management standard ISO 14001.

Corruption and ethical risks

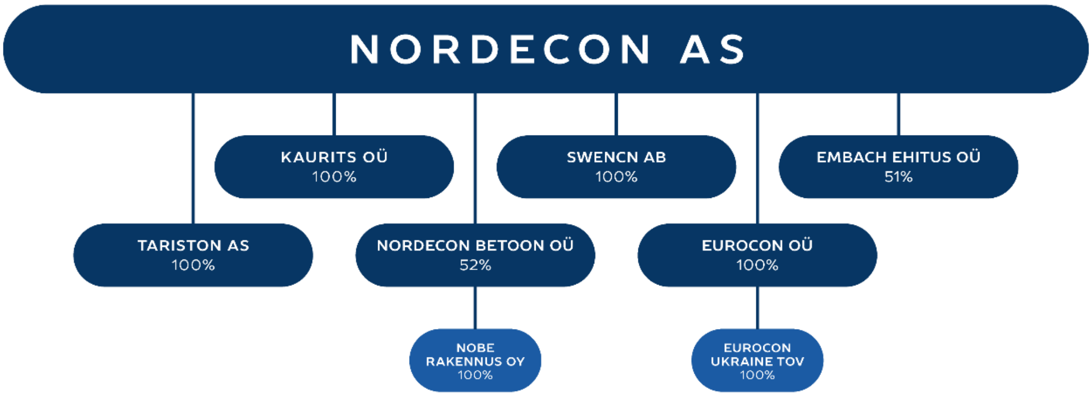
Nordecon is one of the leading construction companies in the Estonian market. Therefore, it is important for us to be aware of the risks involved in breaching honest and ethical business practices. We have put in place internal procedures and policies, observe the rules of the Tallinn Stock Exchange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

Production complex of Tallinn City Theatre (Eston Ehitus AS)

Business and financial review

Group structure

The group's structure at 31 December 2020, including interests in subsidiaries and associates*



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

Significant changes in group structure

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 Register on 5 March 2020. As a result of 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 of which €15,300 is held by 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.

Merger of Eston Ehitus AS with Nordecon AS

Nordecon AS and its wholly-owned subsidiary Eston Ehitus AS signed a merger agreement on 2 September 2020. The purpose of the transaction was to improve the group's internal efficiency and to streamline its management structure. Consistent with the merger agreement, the acquirer was Nordecon AS that became the legal successor to Eston Ehitus AS which was dissolved. The merger was finalised on 15 October 2020.

Sale of the associate Pigipada OÜ

Nordecon AS's subsidiary Tariston AS and Tõrvatilk OÜ signed an agreement on 8 December 2020 for the disposal of Tariston AS's 49% interest in Pigipada OÜ. The purpose of the transaction was to resolve the issue of the entity's ownership and to dispose of the investment on terms favourable for Tariston AS. The total transaction price was €3,596 thousand. As a result of the transaction, control of Pigipada OÜ changed, which is why the completion of the transaction, including the transfer of the rights and obligations, required the consent of the Competition Authority, which was granted on 28 December 2020. The disposal of the investment in the associate Pigipada OÜ was finalised on 30 December 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 subsegments. A significant share of the core business was conducted by the parent, Nordecon AS, which is also a holding company for the group's larger subsidiaries. In addition to the parent, construction management services were rendered by the subsidiaries Nordecon Betoon OÜ (brand name NOBE) and Embach Ehitus OÜ.

As regards our other main business lines, we continued to provide concrete services (Nordecon Betoon OÜ), lease out heavy construction machinery and equipment (Kaurits OÜ) and render regional road maintenance services 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 2020, our business activity in Ukraine remained at a level comparable to 2019. The group maintains a conservative approach: we sign contracts only when we are certain that the risks involved are reasonable given the circumstances.

Real estate development activities which require major investments remain suspended to minimise risks until the situation in Ukraine improves (we have currently interests in two development projects that have been put on hold). To safeguard 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

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

Sweden

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.

Commercial building at Allika 7 (Nordecon Betoon OÜ)

Performance by geographical market

Revenue generated outside Estonia accounted for approximately 18% of the group's total revenue, which is the highest level in recent years.

	2020	2019	2018	2017	2016
Estonia	82%	89%	93%	94%	93%
Sweden	11%	5%	2%	3%	4%
Finland	6%	4%	1%	1%	1%
Ukraine	1%	2%	4%	2%	2%

Revenue generated in Sweden has increased year on year, driven by two new general contracts for the construction of apartment buildings and a concrete works subcontract for the construction of foundations for 73 turbines in a wind farm being built in northern Sweden, all signed in 2019. The revenue contribution of the Finnish market has increased as well: a significant share of it resulted from contracts for the construction of the Raitinkartano logistics and residential building and two farm complexes. The revenue contribution of the Ukrainian market has decreased by about a half compared to 2019.

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

Performance by business line

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

The group ended 2020 with revenue of €296,082 thousand, a roughly 26.5% improvement on the €234,071 thousand generated in 2019. The Buildings segment increased its revenue by around 34% and the Infrastructure segment by around 7%. 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 subsegment decline sharply while another begins to grow more rapidly.

Segment revenues

In 2020, the Buildings and Infrastructure segments generated revenue of €228,515 thousand and €67,142 thousand, respectively. The corresponding figures for 2019 were €170,647 thousand and €63,063 thousand (see note 28). The current revenue structure is also reflected in the group's order book, where the Buildings segment continues to dominate.

Revenue by segment*

Operating segments	2020	2019	2018	2017	2016
Buildings	72%	70%	72%	74%	73%
Infrastructure	28%	30%	28%	26%	27%

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

Subsegment revenues

In the Buildings segment, revenue generated by the commercial buildings subsegment decreased while revenue generated by other subsegments increased compared to 2019. The largest subsegment in terms of revenue was public buildings, which accounted for over a third of total segment revenue and showed 67% year-on-year revenue growth. During the year, we completed and delivered on time the buildings of the Estonian Academy of Security Sciences and the University of Tartu Learning Centre in Narva, phase I of Kindluse Kool – a basic school in Järveküla near Tallinn, the Annelinn upper secondary school in Tartu and a storage complex for the defence forces' base in Tapa. The largest projects in progress in the public buildings subsegment are the construction of a sports and health centre in Kohtla-Järve, a family health centre in Tartu, and an extension to the building of the Estonian Foreign Intelligence Service in Rahumäe tee in Tallinn, and the reconstruction of two schools in East Ukraine.

A significant share of our Estonian apartment building projects is located in Tallinn. During the period under review, the largest of them were the design and construction of the first two phases of the Kalaranna quarter, and the design and construction of the Tiskreoja residential area on the western border of Tallinn. A large share of the subsegment's revenue also resulted from the construction of apartment buildings in Sweden.

We continue to build our own housing development projects in Tallinn and Tartu (reported in the apartment buildings subsegment). During the period, we completed a five-floor apartment building with 24 apartments at Võidujooksu 8c in Tallinn (www.voidujooksu.ee). Revenue from our own real estate development operations amounted to €2,866 thousand (2019: €6,528 thousand). The uncertainty of the economic environment, caused by the COVID-19 pandemic, has also affected our development operations. The construction of the Mõisavahe Kodu (https://moisavahe.ee) project, which started at the beginning of the year, continued in the autumn after a break of about six months. In carrying out our own real estate development activities, we closely monitor potential risks in the housing development market.

The largest projects of the commercial buildings subsegment were in Tallinn in 2020. We completed and delivered on time the building of Terminal D in Old City Harbour, phase I of the Porto Franco commercial and office development next to the Admiralty Basin, and a multi-storey car park at Sepapaja 1 in Tallinn. Work continues on a seven-floor commercial building in Rotermann City.

Although the amount and share of revenue generated by the industrial and warehouse facilities subsegment remained modest compared to other subsegments, its revenue grew more than two times compared to 2019. Still, the costs of projects in progress are small, amounting to €2 million on average.

Maintenance and training facility in Tapa (Nordecon AS)

Tiskreoja residential area (Nordecon Betoon OÜ)

Apartment building at Võidujooksu 8c (Eston Ehitus AS)

Terminal D in Old City Harbour (Nordecon AS)

Revenue breakdown in the Buildings segment	2020	2019	2018	2017	2016
Public buildings	37%	29%	25%	19%	30%
Apartment buildings	28%	27%	25%	30%	34%
Commercial buildings	23%	36%	35%	25%	16%
Industrial and warehouse facilities	12%	8%	15%	26%	20%

Although the largest revenue contributor in the Infrastructure segment is still road construction and maintenance, its proportionate contribution has decreased year on year. A major share of its revenue results from road rehabilitation contracts of €2-3 million each. The largest projects in progress include a contract secured in 2019 for the construction of the Kernu bypass as well as the Kernu filling station and Haiba junctions on the Tallinn-Pärnu-Ikla road, and a contract signed in 2020 for the construction of the Väo junction on the eastern border of Tallinn. Construction of the latter will continue in 2021. In addition to road construction and maintenance, the subsegment builds infrastructure assets for the defence forces and improves forest roads under a number of small contracts signed with the State Forest Management Centre. We also continue to provide road maintenance services in Järva and Hiiu counties and the Kose maintenance area in Harju county.

Other engineering revenue is strongly influenced by the construction of foundations for 73 wind turbines in the Nysäter wind farm that is being built in northern Sweden, near Sundsvall.

A significant share of specialist engineering revenue resulted from the construction of a 640-metre waterfront promenade in Sillamäe.

Basic road no. 69, the section between Soontaga and Kuigatsi intersection (Nordecon AS)

National road no. 4 (E67), Kernu bypass (Nordecon AS)

Revenue breakdown in the Infrastructure segment	2020	2019	2018	2017	2016
Road construction and maintenance	74%	78%	89%	86%	86%
Other engineering	21%	18%	7%	8%	9%
Specialist engineering (including hydraulic engineering)	4%	1%	0%	0%	0%
Environmental engineering	1%	3%	4%	6%	5%

Selection of completed projects

Major projects completed by group entities in different subsegments in 2020*:

Brief description of the project	Group entity	Customer	Subsegment
Construction of Estonian Academy of Security Sciences Learning Centre in Narva	Nordecon AS	Estonian Academy of Security Sciences	Public buildings
Construction of maintenance and training facilities in Tapa and Jõhvi	Nordecon AS	Centre for Defence Investment	Public buildings
Reconstruction and extension of Terminal D in Old City Harbour in Tallinn	Nordecon AS	Tallinna Sadam	Commercial buildings
Reconstruction of basic road no. 69, the section between Soontaga and Kuigatsi intersection	Nordecon AS	Transport Administration	Road construction
Construction of Kernu bypass on national road no. 4 (E67),	Nordecon AS	Transport Administration	Road construction
Construction of Peetri Park (phase I)	Nordecon AS	Rae Municipal Government	Road construction
Construction of a waterfront promenade in Sillamäe (sections 1 and 2)	Nordecon AS	Sillamäe Town Government	Specialist engineering
Construction of a commercial building at Allika 7	Nordecon Betoon OÜ	VKV Majad OÜ	Commercial buildings
Construction of a multi-storey car park at Sepise 8 (phase II)	Nordecon Betoon OÜ	Öpiku Majad OÜ	Commercial buildings
Construction of Tiskreoja residential area	Nordecon Betoon OÜ	Tiskreoja OÜ	Apartment buildings
Construction of Annelinn upper secondary school	Embach Ehitus OÜ	Tartu City Government	Public buildings
Construction of the building of the Saue Municipal Office	Embach Ehitus OÜ	Saue Municipal Government	Public buildings
Construction of roads in the northern and southern sections of the defence forces' central training area	Tariston AS	Centre for Defence Investment	Road construction
Construction of Windtower Experience Centre in Käina	Eston Ehitus AS**	Hiiumaa Environmental and Activity Centre	Commercial buildings
Construction of the production complex of Tallinn City Theatre	Eston Ehitus AS**	Tallinn City Property Department	Industrial and warehouse facilities
Construction of the main building of Rääma Rowing Centre (phase I)	Eston Ehitus AS**	Pärnu Rowing Club	Public buildings
Apartment building at Võidujooksu 8c in Tallinn	Eston Ehitus AS **	Nordecon AS, own development project	Apartment buildings

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

** Eston Ehitus AS was merged with Nordecon AS on 15 October 2020.

Financial review

Financial performance

Nordecon ended the year 2020 with a gross profit of €10,996 thousand (2019: €11,769 thousand). Gross margin for the financial year was 3.7% (2019: 5.0%). The gross margin of the Infrastructure segment improved, rising to 5.1% for 2020 and 6.1% for the fourth quarter (2019: 3.5%, Q4 2019: 1.9%). The gross margin of the Buildings segment, on the other hand, fell sharply, dropping to 3.6% for 2020 and 0.7% for the fourth quarter (2019: 6.3%, Q4 2019: 8.8%). The Infrastructure segment's performance was supported by an earlier start of the road construction season and a strong order book. Even though market players' capacity to produce asphalt concrete continues to exceed market demand, the group's asphalt concrete output grew year on year, providing cover for fixed costs, the largest share of which is made up of costs related to the plant and equipment required for asphalt concrete production and laying. The low profitability of the Buildings segment, which had a strong impact on the group's results for 2020, is attributable to some unsuccessful projects in the Swedish market. The weak performance of the Swedish market was largely due to the COVID-19 pandemic and its impacts on the economic environment. Mobility restrictions disrupted the group's management of its Swedish operations as well as the movement of the projects' subcontractors, which were mostly from Estonia. This delayed the performance of the projects and caused the group additional unbudgeted site costs, which customers did not cover in full.

The group's administrative expenses for 2020 totalled €7,073 thousand. Compared to 2019, administrative expenses grew by around 3.5% (2019: €6,837 thousand). The rise is attributable to the fact that Embach Ehitus OÜ became a subsidiary (see the chapter *Group structure*). The ratio of administrative expenses to revenue (12 months rolling) was 2.4% (2019: 2.9%).

The group's operating profit 2020 was €3,575 thousand (2019: €4,270 thousand). EBITDA amounted to €7,003 thousand and EBITDA margin was 2.4% (2019: €7,311 thousand and 3.1%).

Finance income for 2020 was influenced by the sale of the group's investment in the associate Pigipada OÜ at the end of the year (see the chapter *Group structure*). Gain on the transaction amounted to €2,749 thousand (see note 32). Finance income and expenses for the year were also strongly affected by exchange rate fluctuations in the group's foreign markets, particularly the movements in the exchange rate of the Ukrainian hryvnia, which weakened against the euro by around 24%. Translation of the loans provided to the group's Ukrainian subsidiaries in euros gave rise to an exchange loss of €1,485 thousand in 2020 (2019: a gain of €1,044 thousand). The group's total exchange loss for the year was €1,509 thousand (2019: €196 thousand). The movements in foreign exchange rates also increased the translation reserve in equity by €1,254 thousand (2019: reduced by €823 thousand).

The group earned a net profit of €4,118 thousand (2019: €4,149 thousand). The profit attributable to owners of the parent, Nordecon AS, was €2,466 thousand (2019: €3,378 thousand).

Cash flows

Operating activities produced a net cash inflow of €2,443 thousand in 2020 (2019: an inflow of €8,003 thousand). The key factor that affects operating cash flow is the mismatch between the settlement terms agreed with customers and suppliers. Operating cash flow is also strongly influenced by the fact that the contracts signed with most public and private sector customers do not require them to make advance payments while the group has to make prepayments to subcontractors and materials suppliers. In 2020, the share of prepayments increased due to the COVID-19 pandemic. 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 €8,286 thousand (2019: an inflow of €220 thousand). Transactions with the strongest impact were the transformation of Embach Ehitus OÜ from an associate into a subsidiary, which generated cash inflow of €3,605 thousand, and the sale of the investment in the associate Pigipada OÜ, which generated inflow of €3,596 thousand. Investments in the acquisition of property, plant and equipment and intangible assets totalled €271 thousand (2019: €594 thousand) and proceeds from the sale of property, plant and equipment amounted to €332 thousand (2019: €377 thousand). Dividends received amounted to €974 thousand (2019: €489 thousand).

Financing activities generated a net cash outflow of €5,165 thousand (2019: an outflow of €8,863 thousand). The largest items were loan and lease payments. Proceeds from loans received totalled €2,026 thousand, comprising the use of overdraft facilities and development loans (2019: €3,705 thousand). Loan repayments totalled €2,629 thousand (2019: €4,032 thousand), consisting of regular repayments of long-term investment and development loans. Lease payments totalled €3,086 thousand (2019: €3,276 thousand). Dividends paid in 2020 amounted to €472 thousand (2019: €2,360 thousand). Cash flows of the comparative period, 2019, were also influenced by payments of €1,892 thousand made in connection with the reduction of share capital.

The group's cash and cash equivalents at 31 December 2020 totalled €12,576 thousand (31 December 2019: €7,032 thousand). Management's commentary on liquidity risks is presented in the chapter *Description of the main risks*.

Key financial figures and ratios

Figure/ratio	2020	2019	2018	2017	2016
Revenue (€'000)	296,082	234,071	223,496	231,387	183,329
Revenue change	26.5%	4.7%	(3.4)%	26.2%	26.0%
Net profit (€'000)	4,118	4,149	3,821	1,725	3,933
Net profit attributable to owners of the parent (€'000)	2,466	3,378	3,381	1,388	3,044
Weighted average number of shares	31,528,585	31,528,585	31,528,585	30,913,031	30,756,728
Earnings per share (€)	0.08	0.11	0.11	0.04	0.10
Administrative expenses to revenue	2.4%	2.9%	3.0%	3.0%	3.3%
EBITDA (€'000)	7,003	7,311	6,021,	3,123	6,017
EBITDA margin	2.4%	3.1%	2.7%	1.3%	3.3%
Gross margin	3.7%	5.0%	4.5%	3.8%	6.0%
Operating margin	1.2%	1.8%	1.8%	0.5%	2.3%
Operating margin excluding gain on asset sales	1.1%	1.7%	1.3%	0.5%	2.2%
Net margin	1.4%	1.8%	1.7%	0.7%	2.1%
Return on invested capital	9.3%	10.0%	8.4%	5.9%	8.5%
Return on equity	11.8%	12.5%	11.2%	4.8%	10.6%
Equity ratio	27.6%	27.9%	32.4%	30.8%	38.6%
Return on assets	3.3%	3.7%	3.5%	1.6%	4.2%
Gearing	21.1%	33.8%	28.5%	32.7%	16.7%
Current ratio (note 5)	1.01	1.01	1.12	1.11	1.20

As at 31 December	2020	2019	2018	2017	2016
Order book (€'000)	215,796	227,545	100,352	144,122	131,335

* EBITDA includes the effects of goodwill. 2020: gain from a bargain purchase of €139 thousand, 2016: gain from a bargain purchase of €139 thousand.

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

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

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

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

EBITDA margin = (EBITDA / revenue) * 100

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

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

Operating margin excluding gain on 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 €215,796 thousand at 31 December 2020, a 5% decrease year on year. In 2020, we signed new contracts of €236,577 thousand (2019: €305,695 thousand). The group was equally successful in winning both public and private contracts.

As at 31 December	2020	2019	2018	2017	2016
Order book (€'000)	215,796	227,545	100,352	144,122	131,335

At 31 December 2020, the order books of the Buildings segment and the Infrastructure segment accounted for 81% and 19% of the group's total order book, respectively (31 December 2019: 85% and 15%, respectively). Compared to 31 December 2019, the order book of the Infrastructure segment has grown by around 19% while the order book of the Buildings segment has decreased by around 10% due to an almost twofold decline in the order book of the apartment buildings subsegment.

The order book of the public buildings subsegment accounts for roughly 40% of the order book of the Buildings segment. The subsegment's order book is strongly influenced by the contracts secured in the third quarter for the construction of phase III of the Maarjamõisa Medical Campus of the Tartu University Hospital with a cost of €47.3 million, the construction of an academic building for an upper secondary school in Kuressaare on the island of Saaremaa and the design and construction of a barracks for 300 people in the defence forces base in Paldiski. The order books of the commercial buildings and the industrial and warehouse facilities subsegments have remained at the same level as at 31 December 2019. A significant share of the order book of the industrial and warehouse facilities subsegment is made up of a contract for the construction of a dairy complex for E-Piim in Paide. The order book of the commercial buildings subsegment is dominated by the construction of a new seven-floor commercial building in Rotermann City in Tallinn and a contract of over €22 million secured in the fourth quarter for the construction of the Alma Tomingas office building in conformity with the requirements of the LEED Gold certificate at Sepise 7 in Ülemiste City in Tallinn. A major share of the order book of the apartment buildings subsegment is made up of a contract of around €40 million for the design and construction of the first two phases of the Kalaranna quarter in Tallinn and the construction of the next phases of the Tiskreoja residential area on the western border of Tallinn.

The order book of the road construction and maintenance subsegment accounts for 87% of the order book of the Infrastructure segment. In the fourth quarter, the group signed a contract of around €9.5 million for the performance of earthworks at the Võõbu-Mäo road construction site on the Võõbu-Anna section of Tartu road and a contract for the reconstruction of the Sillamäe town section of national road no. 1 Tallinn-Narva (km 184.7-187.5). The subsegment's order book is also strongly influenced by a contract secured in the second quarter for the construction of the Väo junction on the eastern border of Tallinn. The group continues to provide road maintenance services in three road maintenance areas: Järva, Hiiu and Kose. We have signed a new five-year contract for maintaining national roads in the Järva maintenance area. The contract involves year-round maintenance of around 950 km of national roads in Järva county. Based on the rates for 2020, the total cost of the contract is around €10.7 million.

Based on the size of the group's order book, including the share of work to be performed in 2022, and fierce competition in the general contracting market, the group's management expects that in 2021 the group's revenue will decline somewhat compared to 2020. Customers are increasingly expecting that general contractors should lower their prices but the input prices charged by subcontractors have not decreased as anticipated. This has put profit margins under strong pressure. 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. Our main focus is on cost control as well as pre-construction and design activities where we can harness our professional competitive advantages.

Investments and capital expenditures

Equity investments

We did not make any significant investments in non-group entities in the reporting period. 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 or sell any investment properties (properties held for resale, rental income or capital appreciation) in the reporting and the comparative period (see note 13 to the financial statements).

Investments in property, plant and equipment and intangible assets

Capital expenditures on property, plant and equipment totalled €2,539 thousand in 2020 of which €1,982 thousand was spent on right-of-use assets (2019: €5,859 thousand, right-of-use assets €3,897 thousand) (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 (€'000)	2020	2019
Investments in equity-accounted investees (note 12)	(2,369)	103
Property, plant and equipment (carrying amount) (note 14)	(949)	6,714
Intangible assets (carrying amount) (note 15)	229	62

In 2021, the volume of capital expenditures will remain comparable to 2020. The focus will be on replacing obsolete machinery and equipment and improving operating efficiency.

Quality service and customer experience

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

The group's operations are based on conscious and systematic quality management. Our quality, environmental, and health and safety management systems are based on the requirements of international standards (ISO 9001, ISO 14001, OHSAS 18001/ISO 45001). We execute every project in accordance with the requirements of the customer, project documentation, construction laws and standards, and our own management system.

One of the main outcomes of quality management is safety and our primary obligation is to build buildings and infrastructure assets which are safe and secure. We make no concessions in matters related to the safety of the buildings and infrastructure assets completed by us.

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

Examples from the year 2020

Despite the spread of COVID-19, work on all of our construction sites continued without interruption in 2020. This is a significant achievement. Although we had some delivery problems with certain product groups, which made it more difficult to meet the agreed deadlines, the parent's customer satisfaction score was the highest ever. The year 2020 required us to be even more flexible, understanding and cooperative with all stakeholders.

Parent's highest-ever customer satisfaction score

The rise in customer satisfaction is a result of years of consistent efforts to understand customers' expectations, win their trust and build exceptional relations with all parties. The expertise and professionalism of Nordecon's employees and quality services are also essential to achieving customer satisfaction.

Noticing the positive

The focus of quality management is usually on resolving and eliminating errors and defects. Starting from 2020, we also pay increasing attention to things which have been done very well. Noticing the positive helps reinforce the right behaviour and highlights the abundance of positive examples.

Performance indicators

	2020	2019
Customer satisfaction score*		
Nordecon AS	92%	87%
Tariston AS	91%	89%
Kaurits OÜ	97%	100%
Eurocon Ukraine TOV	92%	80%
Embach Ehitus OÜ	84%	N/A
Non-compliance with regulations and the quality management system		
Number of completed construction projects' non-compliances with health and safety regulations and/or voluntarily observed standards	0	0
Number of non-compliances with the management system detected during internal audits that prevent achievement of goals set	0	0

N/A – data was not collected

* Each entity applies its own methodology. The result is converted to a scale of 100%. The number of respondents in 2020: Nordecon AS 14, Tariston AS 18, Kaurits OÜ 3, Eurocon Ukraine TOV 2 and Embach Ehitus OÜ 9.

Local communities

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

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

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

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

Examples from the year 2020

Kalaranna quarter

We proactively notified the Kalamaja community about construction works via different communication channels. Articles were published in the local paper and information was shared on social media. It is essential to make sure that people are not misinformed. It was important for the Kalamaja community that construction operations would not close down their usual swimming spot. This was taken into account in planning the work.

Väo junction

The construction of the Väo junction, which started in 2020, is a major high-impact project. We carried out a notification campaign together with the subcontractor to inform the community about changes in traffic management. Animations were created to illustrate what was going to happen and, in cooperation with the Transport Administration, information was provided in mass media and the social media networks.

Performance indicators

	2020	2019
Reasoned official complaints from people living near construction sites	6	6

The complaints were related to noise, construction noise in the evenings, vibration of buildings caused by earth works, muddy roads and dust.

Suppliers, subcontractors, purchasing and procurement

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

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

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

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

In construction operations, each supplier and subcontractor is evaluated after the order has been filled or work done. In other operations such as asphalt production and quarrying, business partners are rated once a year. Generally, the following aspects are assessed: observance of deadlines and safety requirements, quality of work done and willingness to cooperate.

Examples from the year 2020

Nordecon is aware that in its role as a general contractor it should provide smaller construction companies with opportunities to learn and improve their know-how. For example, the group encourages the implementation of sector-specific digital solutions and, where necessary, provides support in safety matters, employee instruction and planning the work process. We did not detect any breaches, risks or negative impacts relating to occupational health and safety or environmental aspects in the operations of our subcontractors in 2020 that would have resulted in an accident, termination of business relations or a formal decision to avoid collaboration in the future.

New subcontractor evaluation tool
In 2020, we implemented a new electronic environment that allows us to evaluate subcontractors' work as soon as they have completed their contract. We expect this to become a database that can be used to choose future partners on an objective basis.

Use of migrant workers
In 2020, Nordecon had to prefer subcontractors with a low share of foreign labour because travel restrictions imposed due to COVID-19 made it difficult for migrant workers to enter the country.

Performance indicators

	2020	2019
Share of subcontractors with whom an agreement on meeting occupational health and safety requirements has been signed	98%	98%
Number of subcontractors with significant detected breaches, risks or negative impacts relating to occupational health and safety, which resulted in termination of business relations or a formal decision to avoid collaboration in the future	0	0
Share of subcontractors with whom an agreement on meeting environmental criteria has been signed	96%	95%
Number of subcontractors with significant detected breaches, risks or negative impacts relating to environmental aspects, which resulted in termination of business relations or a formal decision to avoid collaboration in the future	0	0

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

Digital construction and technological solutions

Digital construction, that is the use of various digital solutions, is part of our daily work. The purpose of digital solutions is to make work more efficient, transparent and systematic, so that we can analyse our activities better and make smarter decisions. The group's ambition is to be a leader and advocate in the field of digital construction and to contribute to making the use of viable digital solutions a daily standard. Digital construction helps modernise the construction business, making its image more attractive to young people who are choosing a profession.

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

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

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

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

The group has implemented various IT solutions to also do other work more quickly, conveniently and smartly. For example, Simple-BIM for budgeters, Dalux for viewing and checking the 3D model on a smart device right on the construction site, and BlueBeam for exchanging information contained in PDF documents more easily.

Examples from the year 2020

BIM has become a key tool for the group

- During the year, we delivered to Tallinna Sadam, the operator of the Port of Tallinn, the **project execution model for the reconstruction of Terminal D**, created at the highest level in Estonia to date. The model enables the customer to use the digital twin of the building along with the project execution documentation for daily management of the building.
- We also implemented BIM in **road construction** in 2020. The construction of the Aruküla-Kostivere road section, which began during the year, is the first project where the requirements set by the Transport Administration include the use of BIM.

Bauhub software is used in all projects

- In 2020, we implemented a **contract and financial document management module** in the digital construction management environment Bauhub. The new solution simplifies data collection and makes communication with subcontractors more efficient and transparent. It also allows integrating the data with our financial reporting system.
- We made updated **digital safety instructions** available in the Bauhub environment. Employees can now complete their safety training and sign a confirmation that they have familiarised themselves with the requirements online.

New business management software

In 2020, our larger entities implemented modern cloud-based business management software and upgraded their directly related systems, including the income and expense tracking software that is used in all construction projects. We also implemented a new solution for the integration of different information systems, which provides more flexible options for automated internal and external data exchange.

Other examples from the year 2020

- **Wider use of MS Teams.** The previously adopted software which enables remote working and other digital solutions allowed our work processes to continue without disruption when the outbreak of COVID-19 put life on hold. During the lockdown, most meetings took place via MS Teams.
- **Implementation of digital recording of working time.** The new solution supports human resource management and better work arrangement.
- **Participation in the Digital Cleanup Day started by Telia.** The event helped draw attention to digital trash and raise staff awareness of the need to use digital solutions wisely.
- **Decision to set up a separate business technology department.** The plan was driven by continuous growth in digitalisation-related activities and the trend towards data analysis.

Performance indicators

	2020	2019	2018	2017	2016
Number of construction projects where BIM was used	51	41	47	31	15

Aruküla-Kostivere road section (Nordecon AS)

Employees and work environment

Employees

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

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

Examples from the year 2020

In spring 2020, the COVID-19 pandemic brought life around the world to a halt. In Estonia, a state of emergency was declared, private capital investments ceased and the construction sector had to face a lot of uncertainty. All this had a direct effect on the group's operations.

We worked closely with the Estonian Association of Construction Entrepreneurs, to explain to the government and the parliament the approach and support needed by the construction sector. We assured the authorities that the sector can ensure an appropriate and safe work environment on the construction sites. Despite the state of emergency, work on construction sites was allowed to continue.

Nordecon responded to changes in the economic environment by streamlining its operations, which included reviewing the group's overheads. As a result, the number of employees decreased slightly. Our main focus in the tough situation was on preserving as many jobs as possible.

Number of employees, personnel expenses and productivity

- In 2020, the group employed, on average, 708 people. Headcount increased by around 3% compared to 2019. The number of engineers and technical personnel grew due to a change in the group's structure: Embach Ehitus OÜ became a subsidiary, which increased the group's workforce by 43 employees (see the chapter *Group structure*).
- The group's personnel expenses for 2020, including all taxes, totalled €27,130 thousand. Personnel expenses grew by around 7% year on year, mainly in connection with Embach Ehitus OÜ becoming a subsidiary and the payment of project-based performance bonuses.
- Due to the impact of the COVID-19 crisis on the construction sector, wage reduction agreements were concluded with 86% of the employees. The cuts did not affect all group entities similarly because in some areas the volume of work did not decrease.
- The group's nominal labour productivity and nominal labour cost efficiency improved significantly year on year. The rise is attributable to revenue growth.

Adapting to COVID-19

- On the construction sites, the main priorities were safety, compliance with the measures adopted to prevent the spread of COVID-19 and relevant controls. We restricted access to, and movement on, the sites and monitored compliance with the new rules. Personal protective equipment and disinfectants were made available to both our own employees and subcontractors. The staff worked to a fixed schedule to reduce the number of people on the site at a time and meetings were held outdoors. The number of workstations in construction shelters was reduced and social distancing was applied.
- Office staff immediately reorganised their work, implementing home office routines overnight. This was facilitated by the fact that Nordecon's flexible work arrangement agreements, which were updated in 2019, also include remote working guidelines. Business communication platform MS Teams, which was already familiar to the staff as a virtual meetings tool, was fully implemented in spring 2020.
- We introduced the policy that people may come to work only if they believe they are healthy. Since then employees with even mild symptoms of a disease have stayed at home.
- We applied social distancing rules to communication with external parties. Where possible, meetings were held online. In the office, specific rooms were designated for face-to-face meetings with external parties and meeting participants were required to wear face masks.

Activities aimed at new talent

- **Internship programme.** Despite the difficult times, we did not discontinue the activities aimed at new talent. The Nordecon internship programme was carried out on a reduced scale. Given the state of emergency declared in the spring and the COVID-19 pandemic which affected the whole year, the fact that interns could work and gain experience in our organisation was a fine accomplishment.
- **Events for young people.** We notified young people about career opportunities in the group through the following events and activities:
    - The career fair Key to the Future after which close to 70 students applied for internship at Nordecon.
    - The career fair of the University of Life Sciences where the group participated for the first time.
    - Doors Open Day arranged for students
    - A tour for students on the construction site of the Estonian Academy of Security Sciences Learning Centre in Narva

First place in the most attractive employers survey

In the most attractive employers survey conducted by Instar EBC among the students of higher and vocational education institutions in 2020, engineering students rated Nordecon AS the most attractive employer (2019: 7th place). This is the outcome of years of consistent work with students. Our leadership's more frequent interviews to the media where they discussed the performance and development of the construction sector may also have played a role.

Family-friendly employer's label

Nordecon joined the family-friendly employer programme in 2020 and received the starting-level label. The label indicates that, based on an agreed action plan, the group will carry out activities in the coming years to become even more family and employee friendly. We will focus on topics that make Nordecon's work arrangement more efficient for its employees and will improve their work-life balance. Employees of different positions and age groups were involved in agreeing the action plan.

Performance indicators

	2020	2019	2018	2017	2016
Number of employees					
Total average number of employees at group entities	708	687	687	735	684
Of which: engineers and technical personnel	450	414	419	426	381
workers	258	273	268	309	303
Change in number of employees , year on year	3%	0%	(6.5)%	7.5%	(0.9)%
Gender diversity					
Proportion of women in the group's workforce	15%	16%	17%	17%	16%
Proportion of men in the group's workforce	85%	84%	83%	83%	84%
Proportion of women among group entities' board members	8%	7%	13%	13%	N/A
Proportion of men among group entities' board members	92%	93%	87%	87%	N/A
Age diversity					
Proportion of employees under 30 in the group's workforce	21%	21%	23%	25%	N/A
Proportion of employees 30-49 years old in the group's workforce	56%	54%	51%	48%	N/A
Proportion of employees 50 years old and over in the group's workforce	23%	25%	26%	27%	N/A
Productivity					
Nominal labour productivity (€'000)*	418.2	340.6	325.4	314.9	286.0
Change against the comparative year, %	22.8%	4.7%	3.3%	17.6%	27.0%
Nominal labour cost efficiency (€)**	10.9	9.2	9.7	10.1	9.0
Change against the comparative year, %	18.1%	(5.0)%	(3.8)%	12.6%	12.8%
Personnel expenses					
Personnel expenses, including all taxes (€'000)	27,130	25,323	22,964	22,872	20,401
Service fees of members of the council (€'000)	165	187	187	167	138
Social security charges paid on service fees of members of the council (€'000)	54	62	62	55	45
Service fees of members of the board (€'000)	432	480	656	1,001***	350
Social security charges paid on service fees of members of the board (€'000)	143	158	217	330	116
Other indicators					
Number of interns	21	40	26	34	20
Number of incidents indicating discrimination against employees or human rights violations	0	0	0	0	0
Average length of employment with a group entity	7.0	6.9	8.5	8.2	N/A

* Nominal labour productivity = Revenue / Average number of employees per year

** Nominal labour cost efficiency = Revenue / Personnel expenses per year

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

N/A – data was not collected

The Great Nordecon Band – Winner of the Battle of the Corporate Bands 2020

Employee satisfaction, inclusion and benefits

Continuous increase of employee satisfaction and engagement is one of our strategic priorities. We have been measuring employee satisfaction regularly with the TRI*M index (a summary engagement index) since 2010. All surveys have been conducted by the same company, Kantar Emor. We also value honest and open communication, and make continuous efforts to keep our employees well informed. A well-designed personnel policy helps us be flexible and make the best possible decisions considering the economic environment.

Examples from the year 2020

The global pandemic and the resulting crisis in Estonia set the year 2020 clearly apart from the earlier period. The need to reduce costs required us to downsize and implement wage cuts. Benefits and remuneration systems were reviewed and adjusted to the new operating environment. In the crisis, we shifted our focus more clearly to performance indicators.

In this context, the decline in employee satisfaction and engagement was to be expected. Over the years, engagement surveys have confirmed that there is a link between employee satisfaction and the general economic environment and this was also reflected in the 2020 survey. A similar decline in employee satisfaction was last seen during the previous economic crisis about ten years ago.

On the other hand, employee feedback also highlighted Nordecon's strengths. Employees find that a large company copes better with a crisis and they appreciate the professional opportunities that working for the group offers. At several group entities, the impact of the crisis was less severe and employee satisfaction and engagement remained stable or even increased.

Employee inclusion and open communication

The year 2020 was marked by active communication management aimed at ensuring open, broad-based and timely flows of communication through various channels. Regular meetings were held via MS Teams, often with up to 200 attendees. Information was provided on Nordecon's intranet and by e-mail and managers directly. Because of the difficult economic environment it was necessary to communicate more and to explain the decisions made. Open communication improved mutual understanding.

Events and activities organised for employees

Due to the spread of COVID-19, several major company events were cancelled in 2020. At the same time, we tried to find a suitable format and time for staff events and activities. We continued to celebrate employees' birthdays and took time in the summer for smaller outdoor team building events. The traditional year-end event including the recognition of employees was held online.

- **Healthy lifestyle programme Healthy Nordecon**
  - In the spring, a week-long information-sharing campaign was organised to encourage people working from home to be physically active and find ways to take care of their health.
  - In the autumn, a major entertainment event, Nordecon Olympics, took place, which was also attended by two athletes sponsored by the group: Saskia Alusalu and Karl-Martin Rammo.
- **Visits to construction sites**
  In addition to providing colleagues with an opportunity to socialise and network, the purpose of site visits is to show our employees Nordecon's major projects and best work so that they would be better informed. In August employees visited our construction sites in north-east Estonia – in Narva, Sillamäe and Kohtla-Järve and in November we took them to TalTech's academic building in Mäepealse street in Tallinn.

Visit to constructions sites in north-east Estonia, August 2020

Supporting employees' mental health
Supporting employees' mental health is becoming increasingly more important. The changed environment, work stress, and the need to find new ways to strike a work-life balance have raised employees' awareness of mental health issues. Instead of making Christmas gifts to business partners, Nordecon has the tradition of making a donation to an organisation that helps solve problems in society. In 2019, we made a donation to the Cancer Treatment Foundation. In 2020, our employees chose a non-profit organisation that promotes mental health, MTÜ Peaasjad, as the recipient of the donation.

Performance indicators

	2020	2019	2018	2017	2016
Summary engagement index (TRI*M index)	54	66	61	65	66
Number of employees invited to participate in the survey	370	367	347	357	332
Proportion of employees who responded to the survey	88%	75%	81%	81%	77%

Employee development

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

Examples from the year 2020

The outbreak of COVID-19 had a significant impact on all our planned training activities in 2020. Training was suspended in the spring and resumed on a smaller scale in the autumn. There were no motivation training or longer-term training courses and, therefore, the average number of training hours per employee decreased.

Training was mainly provided to employees who needed to improve their professional knowledge or were about to renew or apply for professional certification in 2020. We also made sure that any training was directly related to the employee's duties and responsibilities.

Performance indicators

	2020	2019
Average number of training hours per person for managers and engineers and technical personnel (ETP)	5	21
Average number of training hours per person for workers	1.3	4.3
Proportion of ETP personnel with whom performance interviews were conducted	68%	51%
Proportion of ETP personnel who hold valid professional certificates	56%	46%

Occupational health and safety

Construction is one of the most accident-prone sectors, which is why safe and tidy construction sites are important for the employer, the employee, the business partner and the customer alike. Ensuring security on our construction sites along with a safe and ergonomic work environment, so as to prevent accidents and occupational diseases among our employees and those of our subcontractors, and supporting our employees' physically and mentally healthy lifestyles are among our main responsibilities.

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

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

Examples from the year 2020

Measures to prevent the spread of COVID-19

Throughout the year, we adopted all possible measures to prevent the spread of COVID-19. Construction sites were equipped with the necessary protective equipment and disinfectants and we implemented new ways of working to minimise the risk of infection. Compliance with the new requirements was rigorously checked and a feedback and correction mechanism put in place.

Renewed safety instructions

The parent's safety instructions, which had not changed for a long time, were updated in 2020. The new version is easier to understand, more meaningful and available on a digital platform. In 2021, the parent's employees will have to pass a training course in the Bauhub environment, which is based on the updated safety instructions. Each topic ends with a test that enables employees to check their knowledge. Upon completion of training, employees will sign a confirmation in the same digital environment, affirming that they have familiarised themselves with the safety instructions. Passing the safety training is mandatory for all employees, regardless of their position.

New information stands for construction shelters

Information stands ensure that safety information is available in all our construction shelters at all times. The stands have pockets for documents such as the environmental programme, safety plan and internal work procedure rules. The new solution has made the information which used to be hidden in the bottom drawer visible to everyone – employees, business partners and customers' representatives.

Performance indicators

	2020	2019	2018	2017	2016
Accidents at work involving the group's workforce					
Number of work-related safety incidents	3	5	2	2	N/A
Number of minor accidents at work	6	10	8	9	3
Number of serious accidents at work	2	2	1	2	1
Number of fatal accidents at work	0	0	0	0	0
Accidents at work involving subcontractors' workforce					
Number of work-related safety incidents	35	24	18	16	N/A
Number of minor accidents at work	8	6	6	3	3
Number of serious accidents at work	3	1	2	3	3
Number of fatal accidents at work	0	0	0	0	1
Number of sick leave days taken by the group's workforce					
Total number of sick leave days taken across the group	4,743	3,686	2,467	2,564	N/A
Average number of sick leave days per employee	6.9	5.4	3.6	3.5	N/A
Proportion of sick leave days in all planned workdays*	2.7%	2.1%	1.4%	1.4%	N/A

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

N/A – data was not collected

Accidents at work involving the group's employees were related to wrong work techniques and negligence. Safety incidents were related to road safety and health risks. Accidents at work involving subcontractors were due to wrong work techniques and equipment, incorrect work arrangement, non-compliance with safety requirements and negligence.

Environmental impacts

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

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

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

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

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

There is a clear trend towards more sustainable buildings and infrastructure. This is mainly attributable to the EU energy efficiency measures as well as a general increase in the importance of green thinking and customers' desire to reduce their building and infrastructure maintenance costs. The developments mainly affect the design phase.

Our goal is to make sure that our team can implement more sustainable solutions in both ongoing and future projects. To this end, our project managers attend environmental awareness lectures and we advise clients who wish to find more sustainable solutions.

Examples from the year 2020

Nordecon's ambition to reduce its environmental impacts had to be put on hold in 2020 because the challenges caused by COVID-19 took priority. However, we did not step back and maintained the level achieved.

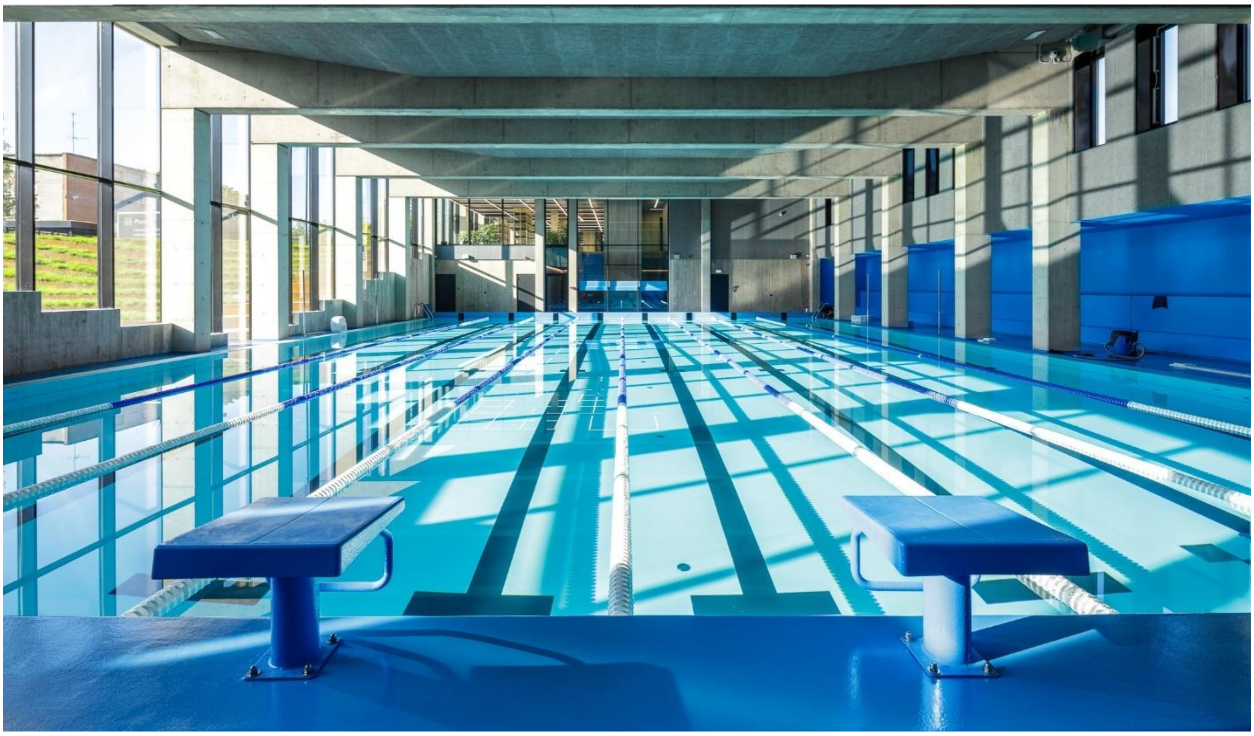
Use of cross laminated timber

The popularity of the use of cross laminated timber (CLT) in building construction continued to grow in 2020. As a material, timber is more expensive but it is natural and requires less processing. Our experience in using CLT is quite unparalleled in Estonia – in the summer we completed the building of the Saue Municipal Office (Embach Ehitus OÜ), which won the title of Wood Building of the Year and in the autumn we delivered the Estonian Academy of Security Sciences Learning Centre in Narva, which is the largest public building in Estonia that is made of wood.

Saue Municipal Office (Embach Ehitus OÜ)

Estonian Academy of Security Sciences Learning Centre in Narva

The Estonian Academy of Security Sciences Learning Centre in Narva was designed with a focus on sustainability. Among other features, the building, which obtained energy label A, has a waste water heat recovery system that uses the residual heat of outgoing waste water to preheat incoming cold water.



Estonian Academy of Security Sciences Learning Centre in Narva (Nordecon AS)

Performance indicators

	2020	2019
Compliance with environmental requirements		
Number of significant notices served or fines charged by supervision authorities for breach of environmental requirements	0	0
Number of significant environmental pollution incidents caused by group entities	0	0
Number of construction or permanent operating sites located in nature reserves or high biodiversity areas	1	0
Energy consumption*		
Electricity consumed by the group's asphalt concrete plant and quarries, MWh	1,279	1,174
Fuels consumed by the group's asphalt concrete plant and quarries, thousand litres	1,865	1,156
Natural gas consumed by the group's asphalt concrete plant and quarries, thousand m^3	806	N/A
Proportion of renewable energy consumed by the group's asphalt concrete plant and quarries, %	0%	0%
Carbon emissions		
Direct carbon emissions of the group's asphalt concrete plant, tonnes of CO_2	3,620	4,076
Carbon intensity ratio (CO_2 emissions in tonnes ÷ asphalt concrete produced in thousands of tonnes)	17.7	22.8
Other		
Number of buildings meeting higher than usual environmental standards delivered during the year	13	13

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

N/A – data was not collected

Out of the buildings delivered by group entities in 2020, eight had energy label A, four had energy label B and one had the LEED certificate.

Multi-storey car park at Sepise 8 (Nordecon Betoon OÜ)

Materials and waste

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

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

Nordecon handles and manages waste in accordance with national and local regulations. Our activities mainly cause the following types of waste: waste stone, soil, concrete 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 packaging). Waste is sorted and handed over to waste handlers. Hazardous waste and polluted soil are handed over to appropriately licensed waste handlers.

Examples of from the year 2020

Responsible waste management on construction sites
We have started to pay more attention to waste management on our construction sites and seek new and better waste sorting and storage options. We also raise the awareness of our teams so that waste would be handled wisely. It is sometimes difficult to organise separate collection of waste on smaller construction sites due to a lack of space.

In the Nordic countries, it is common that on each construction site one employee is solely responsible for waste management. In the future, the same practice could be implemented on larger construction sites in Estonia.

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

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

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

Examples form the year 2020

Construction work in protected areas
In 2020, we had one construction project in a protected area. It was the Rakvere-Rannapungerja road section, which passes through the flying squirrel habitat. We increased the project team's awareness of operational requirements and did not store materials or keep machinery in the area.

Energy consumption and emissions

The group's largest energy consumers are asphalt concrete plants and quarries. Although our two asphalt concrete plants have sustainable modern technology, they are the sources of our largest environmental impacts and we see them as the main opportunity for further energy savings. The emissions of the plants are measured continuously as required by the terms and conditions of the air pollution permit and regular reports are submitted to the Environmental Board. In 2020, the permitted quantities of pollutants were not exceeded.

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.

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

Examples from the year 2020

Energy audit
In 2020, a mandatory energy audit was carried out at the group. The audit needs to be conducted every four years.

Transition to natural gas at the Harku plant
Our asphalt concrete plant in Harku near Tallinn successfully switched from shale oil-based energy to natural gas in 2020. We took advantage of the opportunity to connect the plant to the gas pipeline crossing our property. This has paid off – our production operations are cleaner, emission charges are lower and there are no more odour issues. Other benefits include easier arrangement of the production process as there is no need for fuel transport and more cost-effective energy procurement.

Giving back to society

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

Examples from the year 2020

Development of the construction industry

- Working with the Estonian Association of Construction Entrepreneurs, Nordecon helped formulate messages to the government and the public regarding the crisis caused by COVID-19. Thanks to swift reaction, the construction industry was able to adequately respond to the crisis and work on construction sites did not stop.
- We contributed to the preparation of the strategy document *Long-Term Prospects of the Construction Sector* which was led by the Ministry of Economic Affairs and Communications. The purpose of the discussions held was to reach a sector-wide agreement on the quality and efficiency of construction-related processes as well as matters related to collaboration and common goals.
- As a member of the Digital Construction Cluster, we participated in the work of the integrated project delivery (IPD) working group, which deals with analysing and promoting the IPD principles and adjusting them to the Estonian market. The aim is to introduce a new collaboration model in the construction market that is focused on the best result for the end-user.

Corporate social responsibility index

In 2020, Nordecon passed its corporate social responsibility (CSR) assessment and was awarded the label of a candidate for a socially responsible business. In three of the four topics assessed – governance and ethics, work environment, market environment – our activities were rated as good or very good. The results for the natural environment category were somewhat weaker. The assessment provided us with a good point of reference and vision for the future.

Promoting the engineering profession

- We renewed our agreement with TalTech Development Fund that awards scholarships to students. The number of awarded scholarships grew: Nordecon supports two engineering scholarships and one post-doctoral fellowship, being one of the largest donors of the Development Fund.
- We supported the Peep Sürje Foundation that provides a monthly study grant to the 10 best road engineering students of TalTech.
- We supported the development of digital construction, being a sponsor and partner for projects such as BIMSummit, BuildIT and Enginaator.
- We organised digital construction webinars to share our experience and promote relevant activities.

Partner to the Green Tiger

The group’s subsidiary NOBE is a partner to the Green Tiger. The Green Tiger is an organisation for sustainable companies that has created a partnership platform for raising environmental awareness and creating a basis for a balanced economy. The mission of the organisation is to build cross-sectoral public commitment to achieving a balanced economy and to identify and test environmentally friendly practices in every sector.

Other support and donations

- We supported sports for young people and culture: Karl-Martin Rammo (KMR Sailing), Saskia Alusalu (OÜ Ulasula), the Estonian Shooting Sport Federation, TalTech Sports Centre, the National Defence Promotion Foundation, Nõmme Private Education Foundation, Tallinn City Theatre.
- We made a donation to MTÜ Peaasjad, an NGO involved in promoting mental health, problem prevention, early intervention and reducing the stigmatisation mental health issues. The donation was driven by the crisis of 2020, which highlighted the need to deal with mental health issues.

Membership

- **Group companies belong to the following organisations:**
  - 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
  - Estonian Society of Heating and Ventilation Engineers
  - Estonian Association of Water Supply and Wastewater Engineers
- **Nordecon's employees participate in the following committees and working groups (projects):**
  - Estonian Qualifications Authority (promoting the engineering profession and further engineering training, developing relevant standards)
  - Council and Qualifications Board of the Estonian Association of Civil Engineers
  - Qualifications committee of the Estonian Association of Construction Entrepreneurs
  - Qualifications committee of vocational schools providing construction education
  - Digital Construction Cluster

Performance indicators

	2020	2019	2018	2017	2016
Donations and support payments made by the group (€'000)	240	290	298	300	199

Governance

Members of the council and board of Nordecon AS

Council

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

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

An engineer with a diploma in industrial and civil engineering from Tallinn Polytechnic Institute (today: Tallinn University of Technology), Toomas is one of the founders of the Nordecon group and has been involved in the group's activities through its board and council for 32 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 25 years he has led the Estonian Chamber of Commerce and Industry and for many years has participated in the work of the professional association of Estonian construction enterprises. As chairman of the Chamber of Commerce, he was actively involved in preparatory activities for Estonia's accession to the EU and the euro area. Before Estonia joined the EU, Toomas acted for four years as chairman of the consultative committee of the head of the Estonian state delegation in EU accession negotiations (the minister of foreign affairs). For ten years, Toomas was chairman of the Board of Governors of Tallinn University of Technology. He is a lieutenant colonel of the Estonian Defence Forces (in reserve) and chairman of the Board of Elders of the Estonian Reserve Officers' Association. He has been awarded the Order of the White Star of the Republic of Estonia (Fifth Class, Third Class and First Class) and he has received various awards from the Estonian Defence Forces, the Estonian National Defence League and other state and non-profit organisations. He has also received state awards from several foreign countries. He has an honorary doctorate from Tallinn University of Technology.

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

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

Andri Hõbemägi – representative of AS Nordic Contractors

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

Membership in the governing bodies of other organisations: Subsidiaries and associates of AS Nordic Contractors (council), 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 – independent member (as per the Corporate Governance Code of the Tallinn Stock Exchange)

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

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

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

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

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

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

Andre Luman – representative of AS Nordic Contractors

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

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

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

Board

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

Gerd Müller, chairman of the board

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

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

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

Priit Luman, member of the board

Priit has been a member of the board of Nordecon AS since 1 May 2017. He is responsible for the company's foreign operations. He has worked in different construction management positions at companies of the Nordecon group since 2006. In 2013 he became director of the Building division. Priit graduated from Tallinn University of Technology in 2010 with an MSc *cum laude* in industrial and civil engineering and completed the EMBA programme of Aalto University in 2018. Priit holds the qualification of Chartered Civil Engineer, level 7, awarded by the Estonian Association of Civil Engineers.

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

Interests (over 5%) in other companies: none

Maret Tambek, member of the board

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

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

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

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

Ethical business practices

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

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

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

To ensure the transparency and compliance of its operations, the group has hired an independent internal audit service provider that also administers the anonymous hotline.

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

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

The group's management is not aware of any incidents of corruption in 2020 and 2019, including incidents involving group entities or employees or incidents involving subcontractors or customers, which would have required a response from the group. In 2020 and 2019 the internal hotline did not receive any complaints (about suspected corruption, unethical or unfair behaviour or non-compliance with laws or regulations that would have required investigation) and none of the group entities was found guilty of a serious non-compliance with laws or regulations. The group did not make a donation to any political party in 2020.

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 2020 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 2020, Nordecon AS observed CGC unless indicated otherwise in this report.

General meeting

Exercise of shareholder rights

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

Shareholders may send questions about the agenda items before the general meeting to the company's registered address or e-mail address that are included in the notice of the general meeting. The company replies to all relevant questions before the general meeting on its website or during the meeting when the relevant agenda item is being discussed. In 2020, shareholders did not ask any questions about the agenda items before the annual general meeting or the extraordinary 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 and the extraordinary general meeting held in 2020, the company was represented by chairman of the board Gerd Müller and member of the council Andri Hõbemägi.

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 2020, 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 20 May 2020. 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.

An extraordinary general meeting of Nordecon AS was convened on 22 December 2020. The meeting was held in the Conference Centre of the Radisson Blu Hotel Olümpia in Tallinn and it started at 10.02 am. The meeting was called by the board of Nordecon AS and the item on the agenda was profit distribution.

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

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

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

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

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

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

In 2020, 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 2020, the annual general meeting and the extraordinary general meeting were attended by chairman of the board Gerd Müller and member of the council Andri Hõbemägi.

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

In 2020, 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. Chairman of the council Toomas Luman and members of the board Priit Luman, Maret Tambek and Ando Voogma and the auditor of Nordecon AS did not attend the annual general meeting. Chairman of the council Toomas Luman and members of the board Priit Luman and Maret Tambek did not attend the extraordinary general meeting.

Board

Responsibilities of the board

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

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

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

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

The board and council of Nordecon AS exchanged information in 2020 in accordance with relevant requirements. The board informed the council of the group's performance and financial position on a regular basis. In 2020, 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.

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.

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

  A board member is not eligible for the benefits if the service contract is terminated at the board member's request, the board member is removed due to breach of the law, the board member has breached the service contract, the board member's activities have caused direct damage to the company or the parties agree to extend a board member's service contract for another term of office.

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

The service fees of the members of the board of Nordecon AS amounted to €432 thousand and associated social security charges totalled €143 thousand in 2020 (2019: €480 thousand and €158 thousand, respectively).

In 2020, the board had the following members:

Name	Position/area of responsibility	Beginning of term of office	End of term of office	Remuneration 2020 (€'000)	Remuneration 2019 (€'000)
Gerd Müller	**Chairman of the Board** Overall management of Nordecon AS and the group	8 January 2018	7 January 2024	169	177
Priit Luman	**Member of the Board** Construction operations and foreign markets	1 May 2017	30 April 2023	93	94
Maret Tambek	**Member of the Board** Financial management and support services	1 May 2017	30 April 2023	109	105
Ando Voogma	**Member of the Board** Sales and pre-construction operations	1 August 2017	31 July 2020	61	104

In 2020, 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 to engage in such duties or assignments.

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

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

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

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

In 2020, Nordecon AS complied with the subsections of section 2.3 of CGC that relate to conflicts of interest.

Council

Responsibilities of the council

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

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

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

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

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

The work of the council is organised by the chairman. The chairman of the council determines the agenda of council meetings, chairs council meetings, monitors the effectiveness of the work of the council, organises swift delivery of information to council members, ensures that council members have sufficient time for preparing a resolution and reviewing the information received and represents the company in relations with the company's board. The council had nine meetings in 2020. In addition, seven times resolutions were adopted electronically. One meeting of the council was attended by four members out of five. Other meetings and all instances of electronic voting were attended by all members of the council.

In 2020, Nordecon AS complied with the subsections of section 3.1 of CGC that relate to the responsibilities of the council.

Composition and remuneration of the council

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

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

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

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

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

The service fees of the members of the council of Nordecon AS amounted to €165 thousand and associated social security charges totalled €54 thousand in 2020 (2019: €187 thousand and €62 thousand, respectively).

In 2020, the council had the following members:

Name	Position/area of responsibility	Beginning of term of office	End of term of office	Remuneration 2020 (€'000)	Remuneration 2019 (€'000)
Toomas Luman	Chairman of the Council, representative of AS Nordic Contractors	9 January 2006	20 May 2025	95	108
Andri Hõbemägi	Vice-chairman of the Council, representative of AS Nordic Contractors	25 May 2013	24 May 2023	31	36
Vello Kahro	Member of the Council, independent	20 May 2015	20 May 2025	13	14
Sandor Liive	Member of the Council, independent	20 May 2015	20 May 2025	13	14
Andre Luman	Member of the Council, representative of AS Nordic Contractors	20 May 2020	20 February 2025	7	-
Meelis Milder	Member of the Council, independent	9 January 2006	20 May 2020	6	14

In 2020, 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 2020, 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 2020, 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 promptly and in full.

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

In 2020, 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 2020 because both managers and employees are selected based on the group's interests and people are hired and appointed based on their education, skills and prior work experience. However, the group observes the policy of not discriminating against any candidate based on their gender or on any other basis.

Disclosure of information

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

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

The company discloses information in accordance with the rules of the Nasdaq Tallinn Stock Exchange and the provisions of the Estonian Securities Act. In 2020, the company's threshold for notifying of significant construction contracts was €3.2 million. Nordecon AS made 40 stock exchange announcements in 2020, which were released concurrently via the information system of the Nasdaq Tallinn Stock Exchange and the company's website.

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

Meetings with investors and financial analysts

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

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

In 2020, Nordecon AS complied with chapter 5 of CGC that relates to disclosure of information, except for the following sections:

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

The company believes that by making the information available on its website and by being open and approachable in its shareholder relations it has created adequate alternatives and conditions which ensure 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 2020, Nordecon AS complied with the subsections of section 6.1 of CGC, except for 6.1.1, that relate to financial reporting.

The council did not deem it necessary to invite the auditor to the meeting of the company's council that approved the annual report as required by subsection 6.1.1 because the independent auditor had issued an unqualified report on the consolidated financial statements.

Auditing

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

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

The auditor's responsibilities and fee and the timeframe of services provided are set out in the audit services agreement signed with the auditor. Under the agreement, the auditor performs the audit in accordance with International Standards on Auditing (Estonia). The auditor can express an opinion on the company's activities without any constraints imposed by the company. The fees Nordecon AS paid to the auditors in 2020 totalled €44 thousand.

The auditor provided the audit committee formed by the council with a written memorandum on the company's audit of 2020, the auditor's findings and other significant matters that were discussed with the board.

In 2020, Nordecon AS complied with the subsections of section 6.2 of CGC that relate to auditing.

Share and shareholders

Share information

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

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

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

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

Summarised trading results

Share trading history, €

Price	2020	2019	2018	2017	2016
Open	1.04	0.91	1.25	1.34	1.03
High	1.21	1.09	1.29	1.46	1.35
Average	1.04	0.99	1.10	1.30	1.14
Low	0.78	0.89	0.89	1.20	0.98
Last closing price	1.14	1.03	0.89	1.23	1.33
Traded volume (number of securities traded)	6,021,881	3,254,930	1,707,399	1,977,849	1,162,430
Turnover, € million	5.99	3.24	1.93	2.60	1.3
Listed volume (31 December), thousand	32,375	32,375	32,375	32,375	32,375
Market capitalisation (31 December), € million	36.91	33.35	28.81	39.82	43.06

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

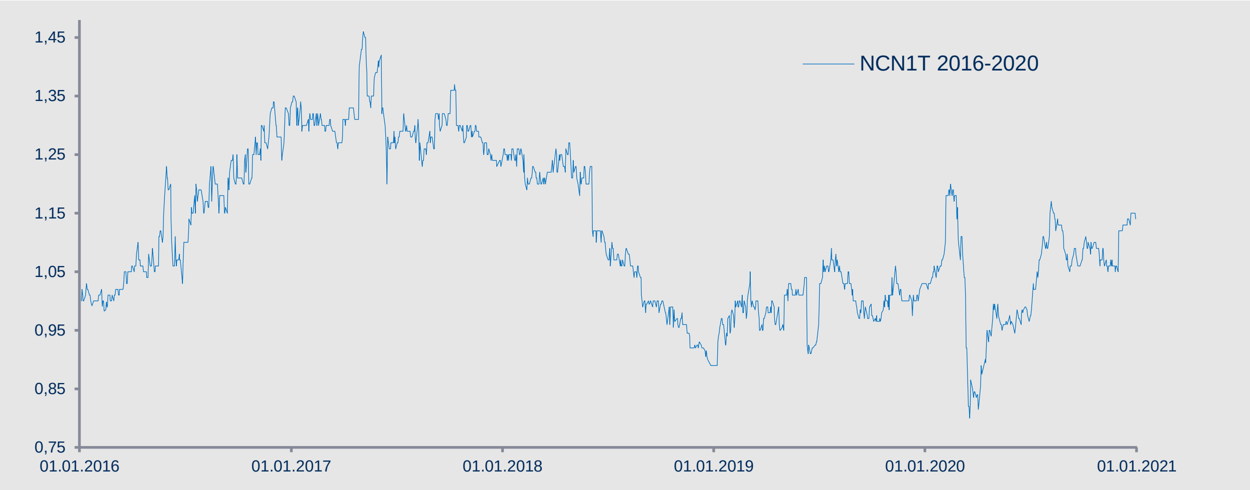
Ratio	2020	2019	2018	2017	2016
P/E	14.6	9.6	8.3	27.4	13.3
P/B	1.1	1.1	0.9	1.1	1.1

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

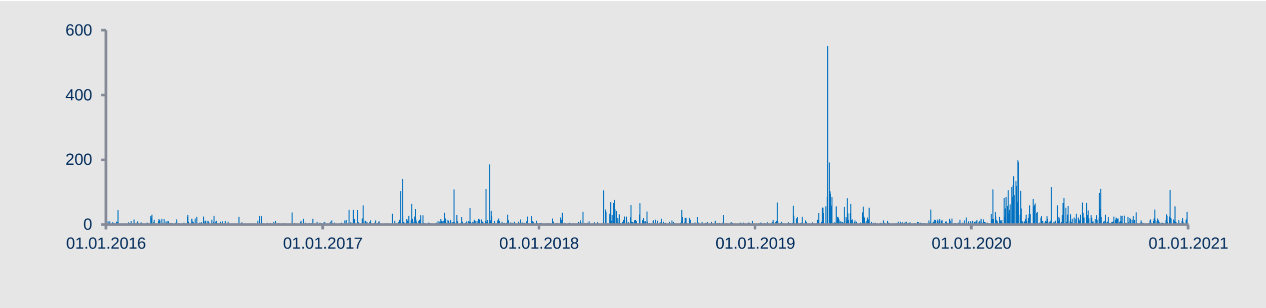
P/B = the period's last closing price of the share / (equity attributable to owners of the parent / number of shares outstanding)

Movements in the price and turnover of the Nordecon AS share in 2016-2020

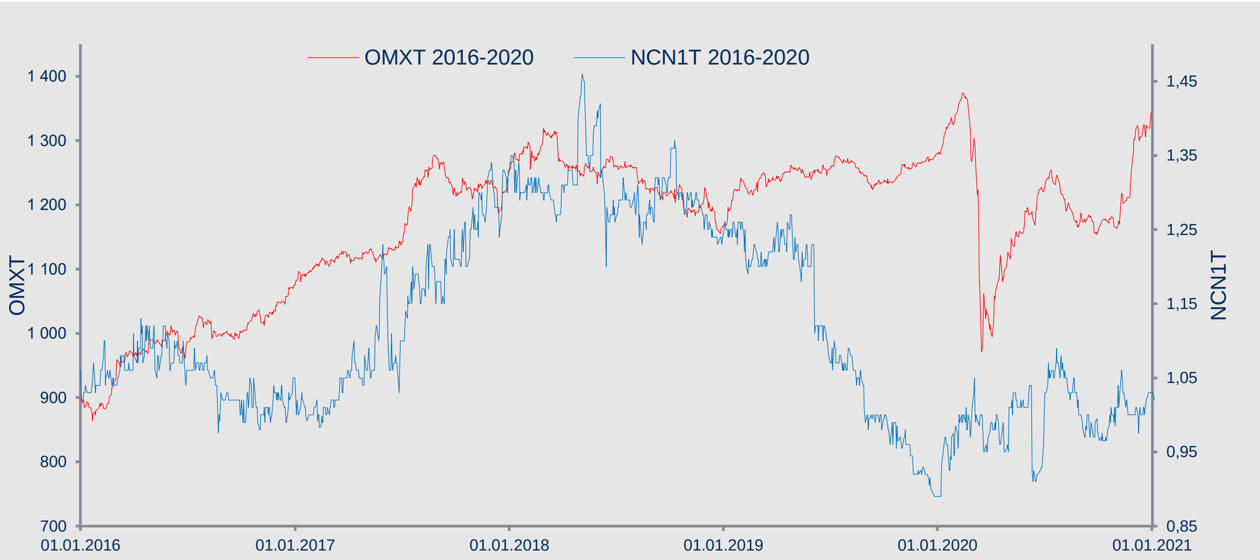
Movements in share price, €



Daily turnover, €'000



Movement of the share price compared to the OMX Tallinn index in 2016-2020



Index/equity	1 January 2016*	31 December 2020	+/-%
OMX Tallinn	898.99	1,343.72	49.47%
NCN1T	€1.05	€1.14	8.57%

* Closing price on the Nasdaq Tallinn Stock Exchange at 31 December 2015.

Shareholder structure

Largest shareholders in Nordecon AS at 31 December 2020

Shareholder	Number of shares	Ownership interest (%)
AS Nordic Contractors	17,607,464	54.39
Luksusjaht AS	4,288,403	13.25
Oleg Radcenko	583,404	1.80
SEB Pank AS clients	503,188	1.55
Lembit Talpsepp	350,786	1.08
Mati Kalme	280,000	0.86
SEB Life and Pension Baltic SE Estonian branch	255,000	0.79
Genadi Bulaton	250,600	0.77
Svenska Handelsbanken clients	211,112	0.65
Ain Tromp	203,960	0.63

Shareholder structure of Nordecon AS at 31 December 2020	Number of shareholders	Ownership interest (%)
Shareholders with interest exceeding 5%	2	67.63
Shareholders with interest from 1% to 5%	3	4.44
Shareholders with interest below 1%	3,107	25.31
Holder of own (treasury) shares	1	2.62
Total	**3,113**	**100**

Shareholder structure by shareholder category at 31 December 2020

Shareholders by business line and legal form	Number of shares	Ownership interest (%)
Companies	24,853,305	76.76
Individuals	6,138,209	18.96
Financial institutions (banks, investment funds)	1,128,969	3.49
Insurance companies	255,000	0.79
Total	**32,375,483**	**100**

Shares controlled by members of the council of Nordecon AS at 31 December 2020

Council member		Number of shares	Ownership interest (%)
Toomas Luman (AS Nordic Contractors, OÜ Luman ja Pojad)*	Chairman of the Council	17,679,144	54.61
Andri Hõbemägi	Member of the Council	50,000	0.15
Vello Kahro	Member of the Council	10,000	0.03
Sandor Liive	Member of the Council	0	0.00
Andre Luman	Member of the Council	25,000	0.08
Total		**17,764,144**	**54.87**

* Companies controlled by the individual

Shares controlled by members of the board of Nordecon AS at 31 December 2020

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

Share option plan

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

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

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

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

At 31 December 2020, 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 distribution proposal is made by reference to the following key factors:

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

Dividends distributed by Nordecon AS in previous years

Year of pay-out	Total dividends paid €'000	Number of shares, thousand	Dividend per share €	Dividend pay-out ratio *
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%

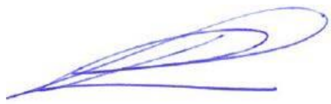
* Formula: dividends paid ÷ profit for the year attributable to owners of the parent from which the dividends were distributed

The company did not distribute a dividend in 2020. The extraordinary general meeting held on 22 December 2020 decided to distribute a dividend of €0.06 per share from retained earnings as at 31 December 2019. The total dividend amounted to €1,892 thousand and it was paid out to the shareholders on 23 March 2021. No dividend was paid to Nordecon AS for own shares held by the company.

The board is making the proposal that in 2021 the company pay a dividend of €0.06 per share for the year 2020 (€1,892 thousand in total). Own shares do not grant any shareholder rights to the company.

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		22 April 2021
Priit Luman	Member of the Board		22 April 2021
Maret Tambek	Member of the Board		22 April 2021

Consolidated financial statements

Consolidated statement of financial position

€'000 As at 31 December	Note	2020	2019
ASSETS			
Current assets			
Cash and cash equivalents	8	12,576	7,032
Trade and other receivables	9	50,029	37,563
Prepayments	10	2,678	1,813
Inventories	11	22,454	21,142
Total current assets		**87,737**	**67,550**
Non-current assets			
Investments in equity-accounted investees	12	0	2,369
Other investments		26	26
Trade and other receivables	9	8,654	8,435
Investment property	13	5,639	5,530
Property, plant and equipment	14	18,053	19,002
Intangible assets	15	14,966	14,736
Total non-current assets		**47,338**	**50,098**
TOTAL ASSETS		**135,075**	**117,648**
LIABILITIES			
Current liabilities			
Borrowings	16	18,508	11,058
Trade payables	18	47,390	40,730
Other payables	19	11,814	7,954
Deferred income	20	7,738	6,391
Provisions	21	1,059	716
Total current liabilities		**86,509**	**66,849**
Non-current liabilities			
Borrowings	16	7,352	16,326
Trade payables	18	2,332	98
Other payables	19	0	177
Provisions	21	1,647	1,425
Total non-current liabilities		**11,331**	**18,026**
TOTAL LIABILITIES		**97,840**	**84,875**
EQUITY			
Share capital	22	14,379	14,379
Own (treasury) shares		(660)	(660)
Share premium		635	635
Statutory capital reserve	22	2,554	2,554
Translation reserve	22	2,423	1,169
Retained earnings		14,543	12,383
Total equity attributable to owners of the parent		**33,874**	**30,460**
Non-controlling interests		**3,361**	**2,313**
TOTAL EQUITY		**37,235**	**32,773**
TOTAL LIABILITIES AND EQUITY		**135,075**	**117,648**

The notes on pages 63-118 are an integral part of these consolidated financial statements.

Consolidated statement of comprehensive income

€'000	Note	2020	2019
Revenue	25, 28	296,082	234,071
Cost of sales	29	(285,086)	(222,302)
Gross profit		**10,996**	**11,769**
Marketing and distribution expenses		(528)	(784)
Administrative expenses	30	(7,073)	(6,837)
Other operating income	31	453	315
Other operating expenses	31	(273)	(193)
Operating profit		**3,575**	**4,270**
Finance income	32	2,995	1,277
Finance costs	32	(2,678)	(1,219)
Net finance income		**317**	**58**
Share of profit of equity-accounted investees	12	734	585
Profit before income tax		**4,626**	**4,913**
Income tax expense	33	(508)	(764)
Profit for the year		**4,118**	**4,149**
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Exchange differences on translating foreign operations		1,254	(823)
Total other comprehensive income / (expense)		**1,254**	**(823)**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**5,372**	**3,326**
Profit attributable to:			
- Owners of the parent	23	2,466	3,378
- Non-controlling interests		1,652	771
Profit for the year		**4,118**	**4,149**
Total comprehensive income attributable to:			
- Owners of the parent		3,720	2,555
- Non-controlling interests		1,652	771
Total comprehensive income for the year		**5,372**	**3,326**
Earnings per share attributable to owners of the parent:			
Basic earnings per share (€)	23	0.08	0.11
Diluted earnings per share (€)	23	0.08	0.11

The notes on pages 63-118 are an integral part of these consolidated financial statements.

Initialled for identification purposes only
Allkirjastatud identifitseerimiseks
22. 04. 2021
Signature / allkiri
KPMG, Tallinn

Consolidated statement of cash flows

€'000	Note	2020	2019
Cash flows from operating activities			
Cash receipts from customers[1]		345,552	277,941
Cash paid to suppliers[2]		(305,500)	(239,873)
VAT paid		(9,909)	(6,816)
Cash paid to and for employees		(27,409)	(22,741)
Income tax paid		(291)	(508)
Net cash from operating activities		**2,443**	**8,003**
Cash flows from investing activities			
Paid on acquisition of property, plant and equipment		(254)	(594)
Paid on acquisition of intangible assets		(17)	0
Proceeds from sale of property, plant and equipment		332	377
Cash received on acquisition of a subsidiary	6	3,605	0
Sale of an investment in an associate	7	3,596	0
Loans provided		(17)	(74)
Repayments of loans provided		44	13
Dividends received		974	489
Interest received		23	9
Net cash from investing activities		**8,286**	**220**
Cash flows from financing activities			
Proceeds from loans received	16	2,026	3,705
Repayments of loans received	16	(2,629)	(4,032)
Payments of lease liabilities	16, 17	(3,086)	(3,276)
Interest paid		(927)	(1,004)
Dividends paid		(472)	(2,360)
Reduction of share capital		0	(1,892)
Other payments		(77)	(2)
Net cash used in financing activities		**(5,165)**	**(8,861)**
Net cash flow		**5,564**	**(638)**
Cash and cash equivalents at beginning of year		**7,032**	**7,678**
Effect of movements in foreign exchange rates		(20)	(8)
Increase / (decrease) in cash and cash equivalents		5,564	(638)
Cash and cash equivalents at end of year		**12,576**	**7,032**

[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 63-118 are an integral part of these consolidated financial statements.

Initialled for identification purposes only
Allkirjastatud identifitseerimiseks

22. 04. 2021

Signature / allkiri

KPMG, Tallinn

Consolidated statement of changes in equity

€'000	Equity attributable to owners of the parent								
	Share capital	Treasury shares	Capital reserve	Share premium	Translation reserve	Retained earnings	Total	Non-controlling interests	Total
Balance at 31 December 2018	**16,321**	**(693)**	**2,554**	**618**	**1,992**	**10,896**	**31,688**	**2,021**	**33,709**
Profit for the year	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**
Profit for the year	0	0	0	0	0	2,466	2,466	1,652	4,118
Other comprehensive income	0	0	0	0	1,254	0	1,254	0	1,254
Changes in non-controlling interests	0	0	0	0	0	1,497	1,497	(132)	1,365
Transactions with owners									
Declaration of dividend	0	0	0	0	0	(1,892)	(1,892)	0	(1,892)
Dividend distribution	0	0	0	0	0	0	0	(472)	(472)
Cancellation of dividend	0	0	0	0	0	89	89	0	89
Total transactions with owners	**0**	**0**	**0**	**0**	**0**	**(1,803)**	**(1,803)**	**(472)**	**(2 275)**
Balance at 31 December 2020	**14,379**	**(660)**	**2,554**	**635**	**2,423**	**14,543**	**33,874**	**3,361**	**37,235**

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

The notes on pages 63-118 are an integral part of these consolidated financial statements

NOTE 1. General information about the group

Nordecon AS is a company incorporated and domiciled in Estonia. The address of the company's registered office is Toompuiestee 35, Tallinn 10149, Estonia. The company's controlling shareholder and the party controlling the Nordecon group is AS Nordic Contractors that holds 54.39% of the shares in Nordecon AS. Through AS Nordic Contractors, the Nordecon group's ultimate controlling party is Toomas Luman. The Nordecon AS shares have been listed on the Nasdaq Tallinn Stock Exchange since 18 May 2006.

The consolidated financial statements of Nordecon AS (also referred to as 'the company' and 'the parent') as at and for the year ended 31 December 2020 comprise the company and its subsidiaries (together referred to as 'the group') and the group's interests in associates. The group's primary activities are building and infrastructure construction (as a general contractor) and, within strategic limits, real estate development. In addition to Estonia, the group operates through its subsidiaries and associate in Ukraine, Finland and Sweden. The operations of the Lithuanian subsidiary have been suspended.

NOTE 2. Statement of compliance and basis of preparation

Statement of compliance

The consolidated financial statements of the Nordecon AS group as at and for the year ended 31 December 2020 have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS EU). The parent's primary financial statements are presented in note 38 to the consolidated financial statements in accordance with the requirements of the Estonian Accounting Act.

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

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

The board authorised these consolidated financial statements for issue on 22 April 2021.

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 (€), in Sweden the Swedish krona (SEK) and in Ukraine the Ukrainian hryvnia (UAH). The consolidated financial statements are presented in euros. The financial information in the primary financial statements and the notes is presented in thousands of euros, rounded to the nearest thousand unless indicated otherwise.

Use of significant accounting estimates and judgements

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

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

The group conducted its business predominantly in Estonia in 2020. Due to the restrictions imposed in connection with the COVID-19 pandemic, Estonia's GDP contracted by 2.9% compared to 2019. The downturn was the sharpest in manufacturing, wholesale and retail trade, and accommodation and catering. Household consumption dropped by 2.5% in 2020 through goods and services related to travelling, commuting and leisure activities outside the home.

Expenditures on stay-at-home lifestyle and healthcare grew. The COVID-19 crisis, which culminated in the spring, ravaged international trade. However, in the second half-year trade recovered, reflecting the adaptability of the Estonian economy. Estonian construction companies' turnover decreased by 6% in total and by 3% in the Estonian market. Estonian construction companies' total output in Estonia and abroad was €3 billion in 2020, the figure comprising building construction of €2.1 billion and infrastructure construction of €0.9 billion. Building construction declined by 7% while infrastructure construction decreased by 5%. Both the Estonian and foreign construction markets were strongly affected by a slowdown in building construction. According to the Estonian Building Register, 7,579 new dwellings received a permit of use in 2020, a rise of 565 on 2019.

Public investments which have a strong impact on the construction market are expected to increase in 2021.

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

On estimating the values of properties (plots of land) acquired for development, the group relies on the calculations of its own real estate specialists. Most of the properties have a detailed spatial plan or proceedings for its adoption have been started. The properties are located in or near Estonia's four largest regional hubs (Tallinn, Tartu, Pärnu and Narva). The group measured the properties using the residual value method, which requires extensive estimation. Under the residual value method, the value of a property is the sum that remains from estimated revenue from the sale of the development project planned on the property after the deduction of estimated construction and other development costs. The valuations, which were performed by the group's real estate specialists with the assistance of independent experts separately for each property, took into account the opportunities and specific features of the detailed spatial plan or the planned building rights (including the region and location of the property). Based on the valuation results, there was no need to write the properties down. A sensitivity analysis of the valuations is presented in the notes to the consolidated financial statements.

Classification (J) and measurement (E) of investment properties (notes 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. During the year, the number of sales transactions involving plots without buildings in the above regions was insufficient to value the properties using the sales comparison method. Thus, the group estimated the values of the properties using the discounted cash flow method. The estimates were made separately for each property, taking into account the opportunities and specific features of the detailed spatial plan or planned building rights (including the location of the property). Based on the estimates, the properties located in Pärnu were remeasured to fair value and their carrying amount was increased by €113 thousand. The fair value of the investment property in Ukraine was also remeasured as at the reporting date and its carrying amount was reduced by €4 thousand. 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 two to three years in general construction and civil engineering and from two to five years in road construction. The amount of post-construction warranty liabilities is estimated based on historical data on actual warranty expenses, which generally extend 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. As a rule, the extraction of raw material imposes the obligation to make an immediate provision for subsequent rehabilitation costs even though the monetary outlays will have to be made or the work to be carried out by the group will have to be done when extraction operations have ended. The group calculates a rehabilitation provision by dividing the estimated rehabilitation expenditure, i.e. the ultimate known costs of restoring the quarry area, by the maximum quantity permitted to be extracted or, if lower, the quantity planned to be extracted. The cost per tonne thus obtained is used to recognise and subsequently adjust the provision based on the actual quantity extracted during the period. Management reassesses the group's rehabilitation obligations, the quantities to be extracted and the sufficiency of the rehabilitation 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 determined by estimating the future net cash flow of a CGU and by applying an appropriate discount rate to calculate the present value of that future cash flow. For the purposes of the group's financial statements, a CGU is the subsidiary, associate or business segment whose acquisition gave rise to goodwill (through the purchase price allocation). The value in use of a CGU is determined by making detailed forecasts of the CGU's net cash flow for the next four years. Management makes the forecasts on the assumption that at the end of the forecast period the CGU is in a stable and financially sustainable state so that the terminal value for identifying value in use can be estimated on a going concern basis. The value in use of a CGU is compared against the cost of the investment made (including goodwill).

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

The net operating cash flows of CGUs do not depend on the capital structure of the specific entity. Therefore, in determining the discount rate, the proportions of debt and equity capital are identified based on the industry's average ratios in the Damodaran database. The discount rates used for estimating the value in use of the group's CGUs range from 9.5% to 10.5%.

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).

NOTE 3. New standards, amendments and interpretations

New standards, amendments and interpretations effective for the reporting period

The following new standards, amendments and interpretations became effective for the group from 1 January 2020.

Amendments to IAS 1 and IAS 8 – *Definition of Material*
(effective for annual periods beginning on or after 1 January 2020).

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 did 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 did not have any significant impact on its financial statements.

New standards, amendments and interpretations not yet effective

At 31 December 2020, 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:

Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 – *Interest Rate Benchmark Reform (IBOR) (Phase two)*
(effective for annual periods beginning on or after 1 January 2021; to be applied prospectively; early application is permitted)

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

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

Change in basis for determining cash flows:

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

Hedge accounting:

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

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

Disclosure

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

NOTE 4. Significant accounting policies

Basis of consolidation

Business combinations of independent entities and acquisition of goodwill

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

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

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

Business combinations of entities under common control

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

Subsidiaries

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

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

Associates

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

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

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

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

Joint operations

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

Transactions eliminated on consolidation

In preparing the consolidated financial statements, all intragroup transactions, balances and unrealised profits and losses are eliminated.

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

Translation of the financial statements of foreign subsidiaries

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

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

	Date	Swedish krona (SEK)	Ukrainian hryvnia (UAH)*
€1	31 December 2020	10.0343	34.7396
€1	31 December 2019	10.4468	26.4220

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

Foreign currency transactions

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

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

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

Financial assets

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

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

Classification of financial assets

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

a) Financial assets measured at amortised cost

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Loans and receivables

Loans and receivables with fixed or determinable payments that have not been acquired for resale are recognised initially at their fair value plus any directly attributable transaction charges. Subsequent to initial recognition, loans and receivables are measured at their amortised cost using the effective interest method.

Interest income on loans and receivables is recognised in profit or loss for the period. Loans and receivables are classified as current except for items that are expected to be collected within a period exceeding 12 months.

Available-for-sale financial assets

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

A gain or loss on a change in the value of an available-for-sale financial asset is recognised in other comprehensive income and in the fair value reserve in equity. When an available-for-sale financial asset is derecognised the cumulative gain or loss previously recognised in the fair value reserve is reclassified to finance income or finance costs, as appropriate, and when an available-for-sale financial asset becomes impaired, the cumulative amount that has been recognised in equity is reclassified to finance costs. An available-for-sale financial asset is classified as non-current except when the investment is expected to be realised within 12 months.

Cash and cash equivalents

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

Financial liabilities

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

A financial liability is classified as current when it is due to be settled within 12 months after the reporting date or when the group does not have an unconditional right to defer settlement of the liability for at least 12 months after the reporting date. Loan liabilities that are to be settled within 12 months after the reporting date but which are refinanced on a long-term basis between the reporting date and the date on which the financial statements are authorised for issue are reported as current liabilities. In addition, loan liabilities are classified as current if the creditor may recall the loan at the reporting date due to breach of the loan agreement.

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

Factoring

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

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

The group also uses reverse factoring. Under 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.

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

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

Investment property

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

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

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

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

Property, plant and equipment

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

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

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

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

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

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

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

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

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

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

Borrowing costs

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

Intangible assets

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

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

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

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

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

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

Goodwill

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

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

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

Research and development expenditures

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

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

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

Impairment of assets

Measurement of fair value is described in note 5.

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

Financial assets

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

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

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

Non-financial assets

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

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

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

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

Reversal of an impairment loss

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

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

Provisions and contingent liabilities

A provision is recognised in the statement of financial position when the group has a legal or constructive obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Long-term provisions are recognised at their present value by applying a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the obligation.

The increase in a provision arising from the decrease in the discount period (unwinding of the discount) is recognised in profit or loss. Provisions are carried at their discounted present value if the effect of discounting is material.

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

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

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

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

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

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

Short-term employee benefits

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

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

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

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

Share-based payments

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

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

Derivatives

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

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

Leases

The group as a lessee

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

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

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

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

Short-term leases and leases for which the underlying asset is of low value are recognised as an expense on a straight-line basis over the lease term. In determining the lease term, management assesses how probable it is that the group will exercise, or not exercise, an extension or termination option, considering all relevant facts and circumstances that create an economic incentive to exercise, or not exercise, an option. Periods covered by an option to extend the lease (or periods covered by an option to terminate the lease) are only included in the lease term if it is reasonably certain that the extension option will be exercised (or the termination option will not be exercised).

Management reviews its assessments regarding the extension and termination options upon the occurrence of a significant event or a significant change in circumstances that affects the probability of the group exercising an option or when there is a change in the non-cancellable period of the lease.

The group as a lessor

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

An asset leased out under a finance lease is recognised in the statement of financial position and presented as a receivable at an amount equal to the net investment in the lease. Under a finance lease, the lessor transfers substantially all the risks and rewards incidental to ownership of the underlying asset to the lessee and thus removes the asset from its statement of financial position and recognises instead a finance lease receivable, i.e. its net investment in the lease. A finance lease receivable is the sum of the present value of lease payments receivable and the present value of the estimated residual value of the underlying asset at the end of the lease term.

Statutory capital reserve

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

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

Earnings per share

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

Income tax

Deferred tax

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

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

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

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

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

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

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

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

Information about income tax liabilities is provided in note 33 to the consolidated financial statements.

Foreign subsidiaries and associates

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

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

Segment reporting

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

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

Revenue

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

Revenue from construction contracts

Construction contract revenue and construction contract costs (under contracts secured as a general contractor and a subcontractor and road maintenance contracts) are recognised as revenue and expenses, respectively, when they can be measured reliably using the stage of completion method. Contract revenue comprises the initial amount of revenue agreed in the contract and variations in contract work and claims and incentive payments to the extent that it is probable that they will result in revenue and are capable of being measured reliably. The stage of completion of a contract is determined using the cost method, i.e. based on the proportion that contract costs incurred for work performed bear to the estimated total contract costs. When it is probable that total contract costs will exceed total contract revenue, the entire expected loss is recognised immediately as an expense in profit or loss and in provisions in the statement of financial position (see also the accounting policy *Construction contracts in progress*).

Revenue from sale of goods purchased and finished goods

Revenue from the sale of goods purchased and finished goods, including real estate developed by the group (own developments), is recognised when control of the goods has been substantially transferred to the buyer, it is probable that economic benefits associated with the transaction will flow to the group, the costs incurred or to be incurred in respect of the transaction including potential returns can be measured reliably, the group retains no continuing involvement with the goods, and the amount of the revenue can be measured reliably.

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

Finance income

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

Construction contracts in progress

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

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

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

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

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

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

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

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

NOTE 5. Financial risk management

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

- Credit risk
- Liquidity risk
- Market risk

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

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

Credit risk

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

The factors, which have the strongest impact on the group's credit risk exposure, are the specific circumstances of each customer. In addition, the group's management considers more general features such as the customer's legal status (private or state-owned entity), geographical location, industry, and the economic situation in the country involved as these factors may also influence the group's exposure to credit risk. Based on the group's experience, private sector customers have the highest credit risk while the credit risk of government institutions and local governments is the lowest. The latter assessment is confirmed by the fact that there has been no need to write down receivables from public sector customers thanks to their stable solvency. In 2020, the share of revenue from public sector customers grew to around 39% (2019: around 34%). The largest public sector customers were the Transport Administration and the Centre for Defence Investment whose contracts accounted for around 13% and 6% of the group's revenue, respectively (2019: 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 rated as creditworthy by management. In the case of customers with whom the group has prior experience, credit risk assessment is mainly based on the customer's historical settlement behaviour and current monitoring. In the case of high-risk counterparties, services are rendered and goods are sold on a prepayment basis only.

The group does not demand security (e.g. payment guarantees issued by banks) for trade receivables unless 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 trade receivables and amounts due from customers for contract work. Expected credit losses are estimated using a provision matrix that is based on the group's historical credit loss experience, adjusted for factors specific to the debtors, general economic conditions, an assessment of both current and forecast developments at the reporting date and, where appropriate, the time value of money. Lifetime expected credit losses are expected credit losses that result from all possible default events over the expected life of a financial instrument. Based on the analysis performed, the group did not recognise a provision at 31 December 2020 or 31 December 2019 (note 9).

Further information about 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 quarter, growth in operations triggers the need for additional working capital.
- In the construction sector it is often necessary to make prepayments to subcontractors and materials suppliers while customers are generally not required to make advance payments. The group has to cover the shortfall in working capital, which arises from the mismatch between cash receipts and payments, with own funds or using credit lines provided by financial institutions.
- To ensure efficient performance of its operating activities, the group needs to invest in plant and equipment and real estate.

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

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

The group's liquidity position in 2021

At the reporting date, the group's current assets and current liabilities amounted to €87,737 thousand and €86,509 thousand, respectively, and the current ratio was 1.01 (31 December 2019: €67,550 thousand and €66,849 thousand, respectively, and the current ratio was 1.01). Current liabilities included borrowings of €18,508 thousand (31 December 2019: €11,058 thousand). A significant share of current borrowings is made up of overdrafts, of which overdrafts of €6,205 thousand have been extended for the next 12 months and overdrafts of €5,011 thousand have been extended for the next 6 months since the reporting date.

After adjustments for the above amounts, current assets and current liabilities would amount to €87,737 thousand and €80,304 thousand, respectively (current ratio would be 1.09).

In the light of the above, the group's management believes that in 2021 the group's liquidity position will be adequate to allow the group to continue sustainable and profitable operating activities and to settle its liabilities to counterparties on a timely basis.

Further information about the group's liquidity is provided in note 34.

Market risk

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

Currency risk

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

The Ukrainian national currency, the hryvnia (UAH), floats against other currencies. The Ukrainian group entities' currency risk exposure arises from financial instruments that are denominated in currencies other than the hryvnia, for example, borrowings denominated in euros. In 2020, the Ukrainian hryvnia weakened against the euro by around 24%. As a result, the group's Ukrainian subsidiaries, which have to translate their euro-denominated loans into the local currency, recognised a foreign exchange loss of €1,485 thousand (2019: a gain of €1,044 thousand). Exchange gains and losses on financial instruments have been recognised in finance income and finance costs, respectively.

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

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

During the reporting period, the Swedish krona strengthened against the euro by around 4%. In 2020, 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 €48 thousand (2019: €16 thousand). 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 €24 thousand (2019: €196 thousand). The exchange loss has been recognised in finance costs.

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

Interest rate risk

The main source of the group's interest rate risk is the possibility of a rise in the base rate of floating interest rates. In the light of the group's relatively heavy loan burden this would cause a significant increase in interest expense, which would have an adverse impact on the group's profit. The group mitigates the risk by pursuing a policy of entering, where possible, into fixed-rate contracts when the market interest rates are low.

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

Further information about the group's market risk exposures is provided in note 34.

Country risk

In the reporting period, the group's foreign markets included Sweden, Finland and Ukraine. Revenues generated in Sweden, Finland and Ukraine accounted for 11%, 6% and 1% of the group's total revenue, respectively (2019: Sweden 5%, Finland 4% and Ukraine 2%). At the year-end, assets located in Sweden, Finland and Ukraine accounted for 3%, 1% and 3% of the group's total assets, respectively (2019: Sweden 3%, Finland 3% and Ukraine 4%).

The group's business operations did not change in 2020. The group's business volumes remained stable compared to the previous year. 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.

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

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.

Initialled for identification purposes only
Allkirjastatud identifitseerimiseks

22. 04. 2021

Signature / allkiri

KPMG, Tallinn

- 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 central 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 fair value. Among other things, fair value is determined based on the expert opinions of independent certified real estate appraisers. Fair value is determined using the following methods:

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

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

The group measured the fair values of its investment properties using the discounted cash flow method. The valuations were performed by the group's real estate specialists with the assistance of independent experts. Based on valuation results, the carrying amount of the group's investment properties in Estonia was increased by €113 thousand and the carrying amount of the group's investment property in Ukraine was reduced by €4 thousand. 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 8% (2019: 25%) assuming all other variables remained constant.

€'000 As at 31 December	2020	2019
Total interest-bearing liabilities (note 16)	25,860	27,384
Cash and cash equivalents (note 8)	(12,576)	(7,032)
Net interest-bearing liabilities	13,284	20,352
Total equity	37,235	32,773
Invested capital (interest-bearing liabilities + equity)	63,095	60,157
Gearing ratio*	21%	34%

* 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. From January 2021 the requirement is 25% (actual ratio at the end of 2020: 34%; 2019: 34%).

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.

In the reporting period, the group was in compliance with all contractual and regulatory equity requirements.

Dividend policy

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

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

Dividends distributed by Nordecon AS in previous years:

Year of pay-out	Total dividends paid €'000	Number of shares, in thousands	Dividend per share €	Dividend pay-out ratio*
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 year attributable to owners of the parent from which the dividends were distributed.

The company did not distribute a dividend in 2020. The extraordinary general meeting held on 22 December 2020 decided to distribute a dividend of €0.06 per share from retained earnings as at 31 December 2019. The total dividend amounted to €1,892 thousand and it was paid out to the shareholders on 23 March 2021. No dividend was paid to Nordecon AS for own shares held by the company.

Initialled for identification purposes only
Allkirjastatud identifitseerimiseks

22. 04. 2021

Signature / allkiri

KPMG, Tallinn

The board is making the proposal that in 2021 the company pay a dividend of €0.06 per share for the year 2020 (€1,892 thousand in total). Own shares do not grant any shareholder rights to the company (note 24).

NOTE 6. Group entities

At 31 December 2020, the Nordecon group had 20 consolidated subsidiaries (2019: 19), of which 14 were incorporated and domiciled in Estonia (2019: 13), 3 in Ukraine (2019: 3), 1 in Lithuania (2019: 1), 1 in Sweden (2019: 1) and 1 in Finland (2019: 1).

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

Subsidiary	Core business	Country of incorporation	Ownership interest 2020 (%)	Ownership interest 2019 (%)
Nordecon Betoon OÜ	Concrete works	Estonia	52	52
Eston Ehitus AS	Building construction	Estonia	-	100
Tariston OÜ	Road construction and maintenance	Estonia	100	100
Kaurits OÜ	Leasing out heavy equipment and construction as a subcontractor	Estonia	100	100
Embach Ehitus OÜ	Building construction	Estonia	51	46
EE Ressursid OÜ	Geodetic surveying	Estonia	100	100
Kalda Kodu OÜ	Real estate development	Estonia	100	100
Eurocon OÜ[4]	Holding company (UKR)	Estonia	100	100
SweNCN OÜ[4]	Holding company (SE)	Estonia	100	100
Eurocon Ukraine TOV	Building construction	Ukraine	100	100
Eurocon BUD TOV	Building construction	Ukraine	100	100
Tehnopolis-2 TOV[4]	Real estate development	Ukraine	100	100
NOBE Rakennus Oy	Concrete works	Finland	52	52
Nordecon Statyba UAB[4]	Building construction	Lithuania	80	80
SweNCN AB	Building construction (SE)	Sweden	100	100

[4] Dormant.

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

At 31 December 2020, the group had interests in 2 associates (2019: 4). Further information about equity-accounted investees is presented in note 12.

Information about changes in the group's structure is provided in note 7.

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

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

Initialled for identification purposes only
Allkirjastatud identifitseerimiseks
22. 04. 2021
Signature / allkiri
KPMG, Tallinn

€'000 Company	2019 Nordecon Betoon OÜ	NOBE Rakennus OY	Embach Ehitus	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	574	245	-	**792**
Non-controlling interests' shareholding	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)**

At 31 December 2020, non-controlling interests in the group's equity totalled €3,361 thousand (31 December 2019: €2,313 thousand), including non-controlling interests in Embach Ehitus OÜ of €207 thousand, Nordecon Betoon OÜ of €2,622 thousand and NOBE Rakennus OY of €530 thousand (31 December 2019: Nordecon Betoon OÜ of €1,867 thousand and NOBE Rakennus OY of €434 thousand). The remaining non-controlling interests, none of which is individually material for the group, totalled €2 thousand (31 December 2019: €4 thousand).

NOTE 7. Changes in group structure

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 Register 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 of which €15,300 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. At 28 February 2020, the net assets of Embach Ehitus OÜ totalled €2,802 thousand; the fair value of net assets did not differ from their carrying amount. If Embach Ehitus OÜ had been acquired at 1 January 2020, the group's revenue would have been €4,838 thousand larger but the impact on net profit for 2020 would have been insignificant.

Merger of Eston Ehitus AS with Nordecon AS

Nordecon AS and its wholly-owned subsidiary Eston Ehitus AS signed a merger agreement on 2 September 2020. The purpose of the transaction was to improve the group's internal efficiency and to streamline its management structure. Consistent with the merger agreement, the acquirer was Nordecon AS that became the legal successor to Eston Ehitus AS which was dissolved. The merger was finalised on 15 October 2020.

Sale of the associate Pigipada OÜ

Nordecon AS's subsidiary Tariston AS and Tõrvatilk OÜ signed an agreement on 8 December 2020 for the disposal of Tariston AS's 49% interest in Pigipada OÜ. The purpose of the transaction was to resolve the issue of the entity's ownership and to dispose of the investment on terms favourable for Tariston AS. The total transaction price was €3,596 thousand. As a result of the transaction, control of Pigipada OÜ changed, which is why the completion of the transaction, including the transfer of the rights and obligations, required the consent of the Competition Authority, which was granted on 28 December 2020. The disposal of the investment in the associate Pigipada OÜ was finalised on 30 December 2020.

NOTE 8. Cash and cash equivalents

€'000	31 December 2020	31 December 2019
Current accounts	12,576	7,032
Total cash and cash equivalents	**12,576**	**7,032**

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% (2019: 0.01%). A significant share of the group's current accounts is 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

€'000 Current items	Note	31 December 2020	31 December 2019
Trade receivables	34	32,331	29,141
Retentions receivable	26, 34	2,117	763
Receivables from related parties	34, 37	494	739
Other receivables	34	113	46
Total receivables		**35,055**	**30,689**
Due from customers for contract work	26, 34	14,974	6,874
Total current trade and other receivables		**50,029**	**37,563**

€'000 Non-current items	Note	31 December 2020	31 December 2019
Loans to related parties	34, 37	8,237	8,015
Other non-current receivables	34	417	420
Total non-current trade and other receivables		**8,654**	**8,435**

Trade receivables are presented net of the impairment allowance, which at the year-end amounted to €(153) thousand (31 December 2019: €(55) thousand). 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 another date agreed in the construction contract. The year-end amounts are expected to be recovered within 12 months.

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

Long-term loans to related parties comprise a loan to a Ukrainian associate together with accrued interest (note 37).

The loan recognised in the statement of financial position as at 31 December 2020 was provided to the associate for the acquisition and development of real estate (a property). The property is located in Shastliv village near Kiev, next to the Kiev-Borispol motorway. The loan provided to V.I. Center TOV is secured with a mortgage of €7,000 thousand. The group has invested in the associate together with other shareholders in proportion to its ownership interest. The associate's only liabilities are to its shareholders and each shareholder's receivable is proportionate to the shareholder's interest in the associate. The associate's main asset is the above property. Therefore, the carrying amount of the loan was measured based on the fair value of the property held by the associate, which qualifies as a level 3 measurement according to the fair value hierarchy provided in IFRS 13 *Fair Value Measurement*.

At 31 December 2020, the carrying amount of the loan was €8,237 thousand (31 December 2019: €8,015 thousand): loan principal and accrued interest totalled €11,164 thousand (31 December 2019: €10,929 thousand) and prior period impairment losses amounted to €2,927 thousand. The loan was written down due to the downturn in the Ukrainian economy and the weakening of the Ukrainian currency in previous years, which lowered the prices of, and demand for, commercial real estate.

According to management's estimates the associate will settle its loan liability to the group after the sale of the development project (the property), which is expected to occur within the next five 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 period. 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 2020 by an independent internationally recognised appraiser that measured the fair value of the property, the receivable was written down by €13 thousand. According to the assessment of the group's management, all assumptions applied in the valuation of the loan were realistic but due to the complicated situation of the Ukrainian economy the sensitivity of the value of the loan is higher than usual.

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

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

- a discount rate of 11.3%;
- a vacancy rate of 30-60%, depending on the purpose of use of the rental premises;
- rental prices of €12-20 per square metre or €46-263 per day, depending on the purpose of use of the rental premises;
- a forecast period of 2021-2028 plus the terminal year (growth 1.9%).

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 €2,123 thousand;
- if the vacancy rate of the commercial premises rose by 5 percentage points – by around €1,580 thousand;
- if the discount rate rose by 1 percentage point – by around €2,185 thousand;
- if the completion of the development projects, taken as a whole, was deferred by 1 year – by around €475 thousand.

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

NOTE 10. Prepayments

€'000	31 December 2020	31 December 2019
Prepayments to suppliers	1,193	1,016
Prepaid taxes	1,039	556
Prepaid expenses	446	241
Total prepayments	**2,678**	**1,813**

Prepayments to suppliers comprise prepayments for services of €711 thousand (2019: €813 thousand) and building materials of €482 thousand (2019: €203 thousand).

NOTE 11. Inventories

€'000	31 December 2020	31 December 2019
Raw materials and consumables	3,007	3,149
Work in progress	5,559	6,964
Apartments and parking spaces for sale	400	230
Properties purchased for development and pre-development costs	13,488	10,799
Total inventories	**22,454**	**21,142**

In 2020, inventories of €74,264 thousand (2019: €45,351 thousand) 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, no materials and consumables were written down.

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

€'000	31 December 2020	31 December 2019
Capitalised pre-development costs	586	505
Properties purchased	12,902	10,294
Total	**13,488**	**10,799**
Of which borrowing costs	**769**	**737**

Capitalised borrowing costs accounted for 8% of the group's total borrowing costs in 2020 (2019: 12%).

Apartments for sale comprise the construction costs of apartments completed but not yet sold. In 2020 and 2019, 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 €12,400 thousand (2019: €10,294 thousand). In 2020, the group purchased a property at Pikksilma 11 in Tallinn for €2,000 thousand (note 37). A property acquired for development is carried within properties purchased for development and pre-development costs until it is sold as a separate asset or its development reaches the phase where the building on it is ready for sale at which point the property or part of it is reclassified to apartments for sale. All pre-development expenditures that qualify for capitalisation are recognised in work in progress. At the year-end, properties acquired for development were carried at cost. No properties (plots) acquired for development were written down in 2020 or 2019. According to management's assessment, at 31 December 2020, properties purchased for development comprised properties of €2,915 thousand whose development will start within a year and properties of €9,485 thousand whose development will start later. According to the group's estimates, the normal time frame for development (from the acquisition of the plot to the sale of the completed development project) is 10 to 15 years.

Information about inventories pledged as collateral is provided in note 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, 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 €2,958 thousand.

NOTE 12. Investments in equity-accounted investees

General information on equity-accounted investees

Name and type of investee		Domicile	The group's interest 31 December 2020	The group's interest 31 December 2019	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	51%	46%	Building construction
Pigipada OÜ	Associate	Estonia	-	49%	Bitumen refining

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

Initialled for identification purposes only
Allkirjastatud identifitseerimiseks
22. 04. 2021
Signature / allkiri
KPMG, Tallinn

Carrying amount of investments in equity-accounted investees

€'000	2020	2019
Total investments in equity-accounted investees at beginning of year	**2,369**	**2,266**
Profit under the equity method	734	585
Disposal of an investment	(847)	0
Reclassification to investments in subsidiaries	(1,289)	0
Dividends received	(967)	(482)
Total investments in equity-accounted investees at end of year	**0**	**2,369**

Financial information of equity-accounted investees

2020

Summary financial information for associates presented as separate companies

€'000

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

A change in the capital structure of Nordecon AS's associate Embach Ehitus OÜ was finalised in 2020 with the effect that Nordecon AS acquired a 51% controlling interest and Embach Ehitus OÜ became a subsidiary of Nordecon AS. Nordecon AS's subsidiary Tariston AS disposed of its 49% interest in Pigipada OÜ in 2020. Information about changes in Group structure is provided in note 7.

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 2020, V.I. Center TOV's current liabilities included current liabilities to the group of €11,165 thousand (31 December 2019: €10,930 thousand).

2019

Summary financial information for associates presented as separate companies

€'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'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.

Initialled for identification purposes only
Allkirjastatud identifitseerimiseks

22. 04. 2021

Signature / allkiri

KPMG, Tallinn

€'000	Loss	Recorded in 2020 In the group's profit or loss	Off the statement of financial position	Profit	Recorded in 2019 In the group's profit or loss	Off the statement of financial position
V.I. Center TOV	(6,018)	0	(6,018)	4,099	0	4,099
Kastani Kinnisvara OÜ	0	0	0	0	0	0
Embach Ehitus OÜ	-	-	-	583	583	0
Pigipada OÜ	-	-	-	648	648	0
Total	**(6,018)**	**0**	**(6,018)**	**5,330**	**1,231**	**4,099**

NOTE 13. Investment property

EUR '000	2020	2019
Investment property at 1 January	**5,530**	**5,526**
Write-up of investment property	113	4
Write-down of investment property	(4)	0
Investment property at 31 December	**5,639**	**5,530**

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 2020 by an independent internationally recognised appraiser, at the date of the valuation the fair value of the property was €1,976 thousand. In connection with the revaluation of the group recognised a loss of €4 thousand (recognised in cost of sales) (note 29).

The period's rental income on investment property amounted to €12 thousand (2019: €13 thousand) and direct property management expenses totalled €3 thousand (2019: €3 thousand). Investment properties that do not generate rental income did not give rise to any significant property management expenses. Information about assets pledged as collateral for financial liabilities is provided in note 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 spatial plans and their intended purpose is commercial land and production land. The areas of the plots situated in Estonia are around 15 thousand and 42 thousand and the area of the plot situated in Ukraine is 45 thousand square metres and the areas of the buildings which will be built extend to 14 thousand, 20 thousand and 27 thousand square metres, respectively.

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

- construction prices of around €420 to €700 per square metre, depending on the purpose of the building to be built (production and office buildings, respectively). The relatively low construction price of buildings to be built on commercial land results from their location, which sets lower functionality requirements;
- a discount rate of 13%;
- a vacancy rate of 5% for properties in Estonia and 30-40% for properties in Ukraine;
- an average rental price of €9 per square metre for commercial premises and €5 per square metre for production premises and warehouses (including a cold storage plant planned to be built in Ukraine);
- a forecast period of 2021-2028
- indexed growth in rental and other income of up to 2.5% per year (based on the group's past experience).

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

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

Potential impact of changes in estimates

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

- if rental prices decreased by 5% compared to the ones applied, the investment properties would have to be written down by around €1,166 thousand;
- if construction prices rose by 5% compared to the ones applied, the investment properties would have to be written down by around €770 thousand;

Initialled for identification purposes only
Allkirjastatud identifitseerimiseks
22. 04. 2021
Signature / allkiri
KPMG, Tallinn

- if the discount rate rose by 1 percentage point, the investment properties would have to be written down by around €865 thousand.

NOTE 14. Property, plant and equipment

€'000	Land and buildings	Plant and equipment	Other items	Assets under construction, prepayments	Right-of-use assets	Total
Cost						
At 31 December 2018	**1,993**	**24,080**	**4,734**	**172**	**0**	**30,979**
Initial application of IFRS 16	0	0	0	0	4,260	4,260
Transfer 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	796	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**
Additions	86	248	195	28	1,982	2,539
Acquisition through business combinations	210	83	21	0	584	898
Disposals	0	(366)	(66)	0	(862)	(1,294)
Transfers	0	708	0	(62)	(646)	0
Effect of movements in exchange rates	0	(22)	(6)	0	0	(28)
At 31 December 2020	**2,949**	**17,671**	**4,894**	**355**	**15,951**	**41,820**
Accumulated depreciation						
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	**698**	**15,577**	**2,780**	**0**	**1,648**	**20,703**
Acquisition through business combinations	192	52	20	0	307	571
Depreciation for the year	209	497	156	0	2,546	3,408
Disposals	0	(439)	(112)	0	(363)	(914)
Transfers	(12)	521	(1)	0	(508)	0
Effect of movements in exchange rates	0	(1)	0	0	0	(1)
At 31 December 2020	**1,087**	**16,207**	**2,843**	**0**	**3,630**	**23,767**
Carrying amount						
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**
At 31 December 2020	**1,862**	**1,464**	**2,051**	**355**	**12,321**	**18,053**

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 about assets pledged as collateral is provided in note 36.

Proceeds from the sale of property, plant and equipment totalled €332 thousand (see the statement of cash flows). In 2019, proceeds from the sale of property, plant and equipment totalled €377 thousand. Gain on the sale of property, plant and equipment amounted to €199 thousand (2019: €258 thousand) (note 31).

Depreciation expense has been recognised in cost of sales in an amount of €2,520 thousand (2019: €2,713 thousand) (note 29) and in administrative expenses in an amount of €888 thousand (2019: €311 thousand) (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 2020, the group signed new lease contracts of €1,564 thousand (2019: €4,194 thousand) (note 17).

NOTE 15. Intangible assets

€'000	Goodwill	Software licences	Trade-marks	Development expenditures	Pre-payments	Total
Cost						
At 31 December 2018	**18,773**	**132**	**863**	**443**	**0**	**20,211**
Additions	0	11	0	0	67	78
At 31 December 2019	**18,773**	**144**	**863**	**443**	**67**	**20,290**
Additions	0	242	0	14	60	316
Disposals	0	(21)	0	0	(67)	(88)
At 31 December 2020	**18,773**	**365**	**863**	**457**	**60**	**20,518**
Accumulated amortisation and impairment losses						
At 31 December 2018	**4,597**	**77**	**863**	**0**	**0**	**5,537**
Amortisation for the year	0	17	0	0	0	17
At 31 December 2019	**4,597**	**94**	**863**	**0**	**0**	**5,554**
Amortisation for the year	0	20	0	0	0	20
Disposals	0	(22)	0	0	0	(22)
At 31 December 2020	**4,597**	**92**	**863**	**0**	**0**	**5,552**
Carrying amount						
At 31 December 2018	**14,176**	**55**	**0**	**443**	**0**	**14,674**
At 31 December 2019	**14,176**	**50**	**0**	**443**	**67**	**14,736**
At 31 December 2020	**14,176**	**273**	**0**	**457**	**60**	**14,966**

Capitalised development expenditures result from preparations made for the extraction of sand from the seabed. The preparations will continue in 2021.

Amortisation has been recognised in administrative expenses in an amount of €20 thousand (2019: €17 thousand).

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

Initialled for identification purposes only
Allkirjastatud identifitseerimiseks

22. 04. 2021

Signature / allkiri

KPMG, Tallinn

Impairment testing for cash-generating units containing goodwill

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

Carrying amounts of goodwill allocated to the subsidiaries

Company	Interest 2020	Interest 2019	31 December 2020	€'000 31 December 2019
Nordecon AS				
Goodwill	-	-	11,973	8,206
Of which: Buildings			9,216	5,449
Infrastructure			2,757	2,757
Subsidiaries				
Nordecon Betoon OÜ	52%	52%	181	181
Kaurits OÜ	100%	100%	2,022	2,022
Eston Ehitus AS	-	100%	-	3,767
Total			**14,176**	**14,176**

In 2020, Eston Ehitus AS was merged with the parent Nordcon AS (see note 7). As a result, the goodwill acquired on the acquisition of Eston Ehitus AS is presented within the goodwill of the Buildings segment of Nordecon AS at 31 December 2020.

General assumptions for determining value in use

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

- The forecast period was 2021-2024 plus the terminal year.
- The present value of future cash flows was found using the average weighted cost of capital (WACC) as the discount rate. The proportions of debt and equity capital used as weights were based on the relevant average capital structure indicators of similar companies (measured at market value), which according to the Damodaran database were 45% and 55%, respectively.
- The cost of debt was estimated based on the CGUs' actual loan interest rates, which ranged from 2.9% to 4.9%. The expected rate of return on equity was set at 15%.
- Changes in subsequent periods' revenues were projected on the basis of the CGUs' action plans for subsequent years (including the budgets approved by management for 2021) 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 2021) 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 2021.
- 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 2021 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	2021-2024 + terminal year
Discount rate	10.4%
Revenue change	2021: 11.3%, 2022-2024: compound annual growth rate (CAGR) 8%, terminal year: 1.0%
Gross margin	2021: based on budget, 2022-2024 and terminal year: 6.2%
Administrative expenses	See general assumptions, 2021: 2.9%, 2022-2024 and terminal year: 2.8-3.0% of revenue
Working capital	See general assumptions
Capital expenditures	See general assumptions

Nordecon AS Buildings	Assumptions applied
Forecast period	2021-2024 + terminal year
Discount rate	10.5%
Revenue change	2021: (10.5)%, 2022-2024: compound annual growth rate (CAGR) 0.6%, terminal year: 1.0%
Gross margin	2021: based on budget, 2022-2024 and terminal year: 6.2%
Administrative expenses	See general assumptions, 2021: 2.9%, 2022-2024 and terminal year: 2.8-3.0% of revenue
Working capital	See general assumptions
Capital expenditures	See general assumptions

Nordecon Betoon OÜ	Assumptions applied
Forecast period	2021-2024 + terminal year
Discount rate	9.6%
Revenue change	2021: (35)%, 2022-2024: compound annual growth rate (CAGR) 3.3%, terminal year: 1.0%
Gross margin	2021: based on budget, 2022-2024 and terminal year: 5.5-6.0%
Administrative expenses	See general assumptions, 2021-2024 and terminal year: 2.8% of revenue
Working capital	See general assumptions
Capital expenditures	See general assumptions

Kaurits OÜ	Assumptions applied
Forecast period	2021-2024 + terminal year
Discount rate	9.5%
Revenue change	2021: 41%, 2022-2024: compound annual growth rate (CAGR) 3.3%, terminal year: 1.0%
Gross margin	2021: based on budget, 2022-2024 and terminal year: 7.0%
Administrative expenses	See general assumptions, 2021: 2.4%, 2022-2024 and terminal year: 3.0% of revenue
Working capital	See general assumptions
Capital expenditures	See general assumptions, 2021-2024: continuing renewal of machinery fleet.

According to the results of impairment testing, there was no need to write goodwill down in 2020 or in 2019.

Potential impact of changes in estimates

The value in use of a CGU 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 different market segments. Management performed a sensitivity analysis that reflected how a change in discount rates, revenue and gross profit would affect the recoverable amount of goodwill.

The total value in use of the CGUs to which goodwill has been allocated will exceed the carrying amount of the investments and the goodwill allocated to them as long as the rise in the discount rate does not exceed 0.5 percentage points for Kaurits OÜ, assuming all other variables remain constant. Other CGUs would not be affected by a change in the discount rate.

If revenue change proved 5 percentage points smaller, assuming all other variables remain constant, the goodwill allocated to Kaurits OÜ would have to be written down by €1,254 thousand. The goodwill allocated to other CGUs would not have to be written down.

If the change in gross margin proved 1 percentage point smaller, assuming all other variables remain constant, the goodwill allocated to Kaurits OÜ would have to be written down by €1,434 thousand. The goodwill allocated to other CGUs would not have to be written down.

NOTE 16. Borrowings

Current borrowings

€'000	Note	31 December 2020	31 December 2019
Overdrafts		11,527	8,385
Current portion of non-current borrowings, of which:		6,981	2,673
Overdrafts		2,000	0
Bank loans		1,850	3
Lease liabilities	1	3,131	2,670
Total current borrowings		**18,508**	**11,058**

Non-current borrowings

€'000	Note	31 December 2020	31 December 2019
Total non-current borrowings		14,333	18,999
Of which current portion		6,981	2,673
Non-current portion, of which:		**7,352**	**16,326**
Bank loans		0	2,628
Overdrafts		827	5,790
Lease liabilities	17	6,524	7,902
Derivative financial instruments		1	6

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.

Details of loans as at 31 December 2020:

€'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%	2,000	827	0	2,827	30 October 2022
Overdraft	EUR	4%	5,011	0	0	5,011	30 May 2021
Overdraft	EUR	4%	311	0	0	311	8 September 2021
Overdraft	EUR	Eonia +6.0%	5,790	0	0	5,790	29 January 2021
Overdraft	EUR	Eonia+ 3.1%	415	0	0	415	29 January 2021
Investment loan	EUR	6M EURIBOR + 4.0%	1,850	0	0	1,850	5 June 2021
Total loans			**15,377**	**827**	**0**	**16,204**	

The overdraft facilities with maturities on 29 January 2021 were extended in January 2021 until 31 January 2022.

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

Details of loans as at 31 December 2019:

€'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**	

Reconciliation of financial liabilities to cash flows:

€'000	Note	2020	2019
Balance of financial liabilities at beginning of year		**27,384**	**24,204**
Proceeds from loans received		2,026	3,705
Repayments of loans received		(2,629)	(4,032)
Payments of the principal portion of lease liabilities	17	(3,086)	(3,276)
Addition of lease liabilities (new leases)	17	2,169	4,194
Initial application of IFRS 16	14, 17	0	4,260
Change in factoring liabilities		0	(1,651)
Change in the value of derivatives		(4)	(5)
Offsetting of lease liabilities and invoices for sales of property, plant and equipment	17	0	(15)
Balance of financial liabilities at end of year		**25,860**	**27,384**

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 (five years on average) and, as a rule, include extension and termination options. Lease terms are negotiated on a lease by lease basis and they may differ. The leases include the option to extend the lease at the end of the lease term.

Right-of-use assets

€'000	Note	Land and buildings	Plant and equipment	Other items	Total
Cost					
At 31 December 2019		**2,497**	**12,197**	**199**	**14,893**
Additions		150	1,815	17	1,982
Acquisition through business combinations		126	458	0	584
Disposals		0	(862)	0	(862)
Transfers to property, plant and equipment		0	(430)	(216)	(646)
At 31 December 2020		**2,773**	**13,178**	**0**	**15,951**
Accumulated depreciation					
At 31 December 2019		**106**	**1,516**	**26**	**1,648**
Acquisition through business combinations		33	274	0	307
Depreciation for the year		449	2,080	17	2,546
Disposals		0	(363)	0	(363)
Transfers to property, plant and equipment		0	(465)	(43)	(508)
At 31 December 2020		**588**	**3,042**	**0**	**3,630**
Carrying amount					
At 31 December 2019		**2,391**	**10,681**	**173**	**13,245**
At 31 December 2020		**2,185**	**10,136**	**0**	**12,321**

Lease liabilities

The group as a lessee

€'000	Note	2020	2019
Lease liabilities at beginning of year		**10,572**	**5,409**
Initial application of IFRS 16		0	4,260
Acquisition through business combinations		605	0
Addition		1,564	4,194
Offsetting	16	0	(15)
Payments of the principal portion of lease liabilities		(3,086)	(3,276)
Lease liabilities at end of year, of which falling due:		**9,655**	**10,572**
Not later than 1 year	16	3,131	2,670
Later than 1 year and not later than 5 years	16	6,524	7,902
Base currency €		9,655	10,572
Interest rate for contracts denominated in €*		2.3-3.5%	2.0-4.0%
Weighted average interest rate		2.7%	2.4%
Interest expense of the period		320	268
Cash outflows related to leases		(3,406)	(3,544)

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

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

€'000			2020			2019
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	3,374	243	3,131	2,915	245	2,670
Later than 1 year and not later than 5 years	6,851	327	6,524	8,315	413	7,902
Total	**10,225**	**570**	**9,655**	**11,230**	**658**	**10,572**

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

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

Short-term leases recognised in profit or loss

EUR '000	
2020 – Leases under IFRS 16	
Interest expense on leases	320
Lease expenses on leases of low-value assets and short-term leases	7,013
2019 – Leases under IFRS 16	
Interest expense on leases	268
Lease expenses on leases of low-value assets and short-term leases	5,830

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

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

NOTE 18. Trade payables

€'000	Note	31 December 2020	31 December 2019
Trade payables		34,678	34,326
Accrued expenses related to contract work		12,196	5,417
Payables to related parties	37	516	987
Total current trade payables	34	**47,390**	**40,730**
Trade payables	34	2,332	98
Total non-current trade payables		**2,332**	**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

€'000	Note	31 December 2020	31 December 2019
Payables to employees	34	5,594	4,641
Taxes payable		4,281	3,266
Dividends payable		1,905	0
Accrued expenses	34	11	27
Miscellaneous payables	34	24	20
Total current other payables		**11,814**	**7,954**
Miscellaneous payables	34	0	177
Total non-current other payables		**0**	**177**

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

Accrued expenses include mainly interest accrued on loan liabilities.

Taxes payable

€'000	31 December 2020	31 December 2019
Value added tax	2,059	1,251
Personal income tax	522	550
Social security tax	874	919
Other taxes	564	546
Deferred income tax liability	262	0
Total taxes payable	**4,281**	**3,266**

NOTE 20. Deferred income

€'000	Note	31 December 2020	31 December 2019
Due to customers for contract work	26	2,200	6,384
Advances received for goods and services		5,538	7
Total deferred income		**7,738**	**6,391**

NOTE 21. Provisions

€'000	31 December 2020	31 December 2019
Current provisions	1,059	716
Non-current provisions	1,647	1,425
Total provisions	**2,706**	**2,141**

Changes in provisions

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

Warranty provisions (€'000)	2020	2019
Opening balance	**1,314**	**900**
Acquisition through business combinations	579	0
Provisions used and reversed	(1,193)	(1,376)
Provisions recognised	609	1,790
Closing balance, of which:	**1,309**	**1,314**
Current portion	457	667
Non-current portion	852	647

Rehabilitation provisions (€'000)	2020	2019
Opening balance	**821**	**596**
Provisions used and reversed	(8)	(9)
Provisions recognised	204	234
Closing balance, of which:	**1,017**	**821**
Current portion	222	43
Non-current portion	795	778

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

Other provisions (€'000)	2020	2019
Opening balance	**6**	**487**
Provisions recognised	517	6
Provisions used	(143)	(487)
Closing balance, of which:	**380**	**6**
Current portion	380	6
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 2020, the provision for onerous construction contracts amounted to €75 thousand (31 December 2019: €6 thousand).

NOTE 22. Equity

Share capital

€'000	2020	2019
At 1 January	14,379	16,321
Reduction of share capital	0	(1,942)
At 31 December	**14,379**	**14,379**

In accordance with the articles of association of Nordecon AS, the company's share capital consists of 32,375,483 ordinary shares with no par value 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.

Share premium

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

Capital reserve

The Estonian Commercial Code requires companies to set up a capital reserve. Each year at least one twentieth of profit for the year has to be transferred to the capital reserve until the reserve amounts to one tenth of share capital. The capital reserve may be used to cover losses and to increase share capital but not to make distributions to shareholders. At the reporting date, the capital reserve stood at €2,554 thousand (31 December 2019: €2,554 thousand).

Translation reserve

The translation reserve comprises foreign exchange differences on the translation of the financial statements of foreign subsidiaries whose functional currency differs from the group's presentation currency. At the reporting date, the translation reserve stood at €2,423 thousand (31 December 2019: €1,169 thousand). The change is attributable to movements in the exchange rates of the Ukrainian and Swedish subsidiaries' functional currencies against the euro.

Dividends

The extraordinary general meeting held on 22 December 2020 decided to distribute a dividend of €0.06 per share from retained earnings as at 31 December 2019. The total dividend amounted to €1,892 thousand and it was paid out to the shareholders on 23 March 2021 (note 5).

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.

	2020	2019
Profit for the year attributable to owners of the parent (€'000)	2,466	3,378
Weighted average number of shares outstanding during the period (in thousands)	31,521	31,521
Basic earnings per share (€)	0.08	0.11
Diluted earnings per share (€)	0.08	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 to enable the executive management to benefit from their contribution to growth in the value of the company's share. Under the plan, Nordecon AS granted options for acquiring a total of 1,618 thousand ordinary shares in Nordecon AS. The options could be exercised when three years had passed since the signature of the option agreement but not before the company's general meeting had approved the company's annual report for 2016.

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

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

The annual general meeting that convened on 23 May 2018 adopted some amendments to the share option plan which grant Nordecon AS's chairman of the board the right to acquire up to 200,000 shares and each member of the board the right to acquire up to 129,500 shares in Nordecon AS. An option may be exercised when three years have passed since the signature of the option agreement but not before the general meeting has approved the company's

Initialled for identification purposes only
Allkirjastatud identifitseerimiseks
22. 04. 2021
Signature / allkiri
KPMG, Tallinn

annual report for 2020.

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

At 31 December 2020, 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.

2020

€'000

	Note	Buildings	Infrastructure	Total
Total revenue		**228,515**	**67,733**	**296,248**
Inter-segment revenue		0	(591)	(591)
Revenue from external customers	28	**228,515**	**67,142**	**295,657**
Gross profit of the segment		**8,327**	**3,396**	**11,723**
Depreciation and amortisation		(699)	(2,117)	(2,876)
Segment assets		**99,800**	**27,772**	**127,572**
Capital expenditures		761	1,569	2,330

Initialled for identification purposes only
Allkirjastatud identifitseerimiseks

22. 04. 2021

Signature / allkiri

KPMG, Tallinn

2019

€'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

Revenue from the Transport Administration in an amount of €37,065 thousand, recognised using the stage of completion method, accounted for over 10% of the group's revenue for 2020 (2019: revenue from the Transport Administration of €29,900 thousand and the Centre for Defence Investment of €26,255 thousand accounted for over 10%). Revenue from the Transport Administration is reported in the Infrastructure segment and revenue from the Centre for Defence Investment is reported in the Buildings segment.

The revenue and gross profit of the Buildings segment include revenue and gross profit from the group's own development activities, which in 2020 amounted to €2,866 thousand and €311 thousand, respectively (2019: €6,528 thousand and €949 thousand, respectively).

The group's construction contract revenue for 2020 amounted to €286,709 thousand (2019: €222,566 thousand).

Reconciliation of segment revenues

€'000	2020	2019
Total revenues for reportable segments	296,248	233,978
Elimination of inter-segment revenues	(591)	(268)
Reportable segments' unallocated revenue	425	361
Total consolidated revenue	**296,082**	**234,071**

Reconciliation of segment profit

€'000	2020	2019
Total profit for reportable segments	11,723	12,910
Reportable segments' unallocated loss	(727)	(1,141)
Consolidated gross profit	**10,996**	**11,769**
Unallocated expenses:		
Marketing and distribution expenses	(528)	(784)
Administrative expenses	(7,073)	(6,837)
Other operating income and expenses	180	122
Consolidated operating profit	**3,575**	**4,270**
Finance income	2,995	1,277
Finance costs	(2,678)	(1,219)
Share of profit of equity-accounted investees	734	585
Consolidated profit before tax	**4,626**	**4,913**

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

Reconciliation of segment assets

€'000	31 December 2020	31 December 2019
Total assets of reportable segments	127,572	106,914
Investments in equity-accounted investees	0	2,369
Inter-segment eliminations	0	(54)
Unallocated assets	7,503	8,419
Total consolidated assets	**135,075**	**117,648**

Initialled for identification purposes only
Allkirjastatud identifitseerimiseks

22. 04. 2021

Signature / allkiri

KPMG, Tallinn

Geographical information

Revenue (€'000)	2020	2019
Estonia	241,674	213,300
Ukraine	4,283	4,008
Finland	17,359	10,258
Sweden	32,766	11,060
Elimination of inter-segment revenues	0	(4,555)
Total revenue	**296,082**	**234,071**

Assets based on geographical location* (€'000)	2020	2019
Estonia	36,632	37,205
Ukraine	2,025	2,063
Total assets	**38,657**	**39,268**

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

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

NOTE 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 (€'000)	31 December 2020	31 December 2019
Contract costs recognised using the stage of completion method	5,021	130,119
Estimated gross profit	2,245	8,462
Contract revenue recognised using the stage of completion method	7,265	138,581
Progress billings	7,253	138,090
Difference between total progress billings and revenue recognised	**(12,774)**	**(490)**
Of which due from customers (note 9)	14,974	6,874
Of which due to customers (note 20)	2,200	6,384

Significant changes in amounts due from and due to customers

€'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**
Acquisition through business combinations	504	228
Revenue recognised during the period which at the beginning of the period was recognised in the balance of due to customers	-	(6,531)
Receivables recognised during the period which at the beginning of the period were recognised in the balance of due from customers	(6,427)	-
Remaining difference between revenue recognised and progress billings	14,023	2,119
Balance at 31 December 2020	**14,974**	**2,200**

At the reporting date, retentions receivable under construction contracts totalled €2,117 thousand (31 December 2019: €763 thousand) (note 9).

Out of the order book, which at 31 December 2020 stood at €215,796 thousand, 62% will realise in 2021 and 38% in 2022.

NOTE 27. Participation in joint operations

The group participates in joint operations which are conducted under partnership contracts. The contracts set forth the share of revenue each party is entitled to and the share of expenses to be borne by each partner. The parties have not established companies for conducting the joint operations, therefore each party recognises in its financial statements the assets used in construction activities, the associated liabilities, the expenses incurred and the revenue earned in accordance with the business entity principle and no adjustments or other consolidation procedures are performed in preparing the consolidated financial statements. All joint operations are in Estonia.

Name of joint operation	The group's interest		Total value of contract	
€'000	2020	2019	2020	2019
WOHO commercial and residential building	-	50%	-	12,536
Porto Franco commercial and business building, concrete works phase I	-	50%	-	7,337
HTR commercial and office building	-	50%	-	4,598
Porto Franco commercial and business building, concrete works phase II	50%	50%	15,878	6,419
Commercial buildings at Jahu 4/Suur-Patarei 13	50%	50%	6,549	4,970
Raadimõisa housing estate, phases I and II	50%	50%	7,581	7,592
Logistics centre of Pakendikeskus AS	50%	-	5,282	-

NOTE 28. Revenue

2020

€'000	Buildings	Infrastructure	Total
Revenue from contracts with customers	**227,165**	**67,142**	**294,307**
Of which: general contracting services	211,852	58,088	269,940
subcontracting services	12,447	4,322	16,769
own development activities	2,866	0	2,866
road maintenance services	0	3,332	3,332
rental services	0	1,400	1,400
Other revenue	**1,350**	**0**	**1,350**
Of which: investment property	1,350	0	1,350
Total revenue	**228,515**	**67,142**	**295,657**

2019

€'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**

NOTE 29. Cost of sales

€'000	2020	2019
Cost of materials, goods and services	258,920	197,831
Personnel expenses	23,062	21,496
Depreciation expense (note 14)	2,520	2,713
Other expenses	584	262
Total cost of sales	**285,086**	**222,302**

Initialled for identification purposes only
Allkirjastatud identifitseerimiseks
22. 04. 2021
Signature / allkiri
KPMG, Tallinn

In 2020, the group had, on average, 708 staff (2019: 687) of whom 673 were working under employment contracts, 16 were working under service contracts (i.e. contracts under the law of obligations; excluding self-employed people) and 19 were members of legal persons' management or control bodies (2019: 663, 6 and 18, respectively).

NOTE 30. Administrative expenses

€'000	2020	2019
Cost of materials, goods and services	1,947	2,523
Personnel expenses	3,995	3,717
Depreciation and amortisation expense (notes 14 and 15)	908	328
Other expenses	223	269
Total administrative expenses	**7,073**	**6,837**

NOTE 31. Other operating income and expenses

Other operating income

€'000	Note	2020	2019
Gain on sale of property, plant and equipment	14	199	258
Gain on sale of real estate		19	0
Gain from bargain purchases		139	0
Other income		96	57
Total other operating income		**453**	**315**

Other operating expenses

€'000	Note	2020	2019
Loss on sale and write-off of property, plant and equipment		7	9
Net loss on recognition and reversal of impairment losses on receivables	34	157	63
Foreign exchange loss		48	16
Other expenses		61	105
Total other operating expenses		**273**	**193**

NOTE 32. Finance income and costs

Finance income

€'000	2020	2019
Interest income on loans provided	225	225
Gain on disposal of an associate	2,749	0
Foreign exchange gain	1	1,044
Other finance income	20	8
Total finance income	**2,995**	**1,277**

Interest income on loans provided for the reporting period comprises interest income on loans provided to related parties of €217 thousand (2019: €216 thousand) (note 37). At the end of 2020, the group sold its investment in the associate Pigipada OÜ. Gain on the transaction amounted to €2,749 thousand.

Foreign exchange gain for 2019 of €1,044 thousand comprises the exchange gain on the translation of the loans provided to the Ukrainian subsidiary in euros into the local currency.

Finance costs

€'000	2020	2019
Interest expense	1,078	1,002
Foreign exchange loss	1,509	196
Other finance costs	91	21
Total finance costs	**2,678**	**1,219**

Initialled for identification purposes only
Allkirjastatud identifitseerimiseks

22. 04. 2021

Signature / allkiri

KPMG, Tallinn

The translation of the loans provided to the Swedish and Ukrainian subsidiaries in euros into the local currency gave rise to an exchange loss of €1,509 thousand (2019: €196 thousand), which is presented within foreign exchange loss.

NOTE 33. Income tax expense

EUR '000	2020	2019
Profit for the year	4,118	4,149
Income tax expense on dividends	(246)	(764)
Deferred tax liability	(262)	0
Profit before tax	**4,626**	**4,913**
Income tax using the tax rate of the parent company	(262)	(248)
Income tax on dividends distributed by Estonian group entities	(195)	(399)
Income tax in foreign jurisdictions	(51)	(117)
Total income tax expense	**(508)**	**(764)**

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

A deferred tax liability of €262 thousand has been recognised in the statement of financial position as at 31 December 2020 (31 December 2019: nil). The error has not been corrected retrospectively because its effect is immaterial.

At 31 December 2020, subsidiaries' and associates' temporary differences totalled €20,148 thousand. In 2020, the group's Estonian subsidiaries paid a net dividend of €1,792 thousand, which gave rise to income tax expense of €267 thousand (2019: €1,291 thousand and €257 thousand, respectively). The share of dividends paid to non-controlling interests amounted to €472 thousand (2019: €479 thousand).

NOTE 34. Financial instruments and financial risk management

Credit risk

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

€'000	Note	2020	2019
Cash and cash equivalents	8	12,576	7,032
Trade receivables	9	32,331	29,141
Retentions receivable	9	2,117	763
Receivables from related parties	9	494	739
Loans to related parties	9	8,237	8,015
Other receivables	9	530	466
Due from customers for contract work	9	14,974	6,874
Total		**71,259**	**53,030**

Receivables from third parties are unsecured, except for the loan provided to V.I. Center TOV which 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, SEB Pank AS and Coop Pank AS. Swedbank AS and SEB Pank AS do not have separate credit ratings. Swedbank AS's parent Swedbank AB has Moody's long-term credit rating Aa3. SEB Pank AS's parent Skandinaviska Enskilda Banken AB has Moody's long-term credit rating Aa2. Luminor Bank AS has Moody's credit rating Ba1. Moody's assigned Coop Pank AS a Baa2 credit rating in 2020.

Initialled for identification purposes only
Allkirjastatud identifitseerimiseks

22. 04. 2021

Signature / allkiri

KPMG, Tallinn

Financial assets by geographical origin at the reporting date

€'000	2020	2019
Estonia	57,665	38,031
Ukraine	9,371	9,678
Sweden	2,966	2,357
Lithuania	4	9
Finland	1,253	2,955
Total	**71,259**	**53,030**

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

	31 December 2020		31 December 2019	
€'000	Trade receivables	Impairment allowance	Trade receivables	Impairment allowance
Not past due	26,971	0	21,917	0
0-30 days past due	2,121	0	4,657	0
31-180 days past due	241	0	699	0
Over 180 days past due *	3,151	(153)	1,923	(55)
Total	**32,484**	**(153)**	**29,196**	**(55)**

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

Changes in the impairment allowance for receivables

€'000	2020	2019
Impairment allowance at 1 January	(55)	(5)
Impairment losses recognised during the year	(157)	(63)
Items written off as uncollectible during the year	59	13
Impairment allowance at 31 December	**(153)**	**(55)**

In 2020, recognition of impairment losses on receivables and recovery of previously impaired items gave rise to a net loss of €157 thousand (2019: €63 thousand) (note 31). Items written down comprise a number of small receivables.

During the year, receivables of €59 thousand that had been written off in earlier periods were written off as uncollectible (2019: €13 thousand).

Liquidity risk

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

€'000						31 December 2020
Financial liability*	Carrying amount	Contractual cash flows	Up to 6 months	6-12 months	1-2 years	More than 3 years
Overdrafts (note 16)	14,354	14,815	12,250	1,696	868	0
Bank and other loans (note 16)	1,850	1,882	1,882	0	0	0
Lease liabilities (note 17)	9,655	10,225	2,107	1,268	3,929	2,922
Trade payables (note 18)	49,721	49,721	46,533	489	2,699	0
Other payables (note 19)	11,814	11,814	11,814	0	0	0
Total	**87,394**	**88,457**	**74,586**	**3,453**	**7,496**	**2,922**

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

Initialled for identification purposes only
Allkirjastatud identifitseerimiseks
22. 04. 2021
Signature / allkiri
KPMG, Tallinn

€'000 Financial liability*	Carrying amount	Contractual cash flows	Up to 6 months	6-12 months	1-2 years	31 December 2019 More than 3 years
Overdrafts (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
Finance lease liabilities (note 17)	10,572	11,230	1,564	1,351	5,002	3,313
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**	**14,23**	**3,313**

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

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

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

- an overdraft facility of €1,457 thousand with a fixed interest rate of 4.0% per year;
- an overdraft facility of €289 thousand with an interest rate of 4.0% per year;
- an overdraft facility of €173 thousand with an interest rate of EONIA plus 6.0% per year;
- an overdraft facility of €335 thousand with an interest rate of EONIA plus 3.1% per year.

Financial liabilities by geographical origin at the reporting date

€'000	2020	2019
Estonia	80,913	67,467
Ukraine	1,852	2,251
Sweden	3,769	2,187
Lithuania	1	1
Finland	859	495
Total	**87,394**	**72,401**

Guarantee commitments accounted for off the statement of financial position

At the reporting date, banks had issued on behalf of the group construction-related guarantees of €40,227 thousand (2019: €44,397 thousand). The maturities of the guarantees extend to 2025. According to management's estimates, at the reporting date the risk that the guarantees will be called upon was low. In the reporting period, one guarantee issued by a bank, in an amount of €799 thousand, was called upon. In 2019 no bank guarantees issued on behalf of the group were called upon due to breach of obligations arising from construction activities.

Refinancing of current financial liabilities in 2021

In accordance with the financing plan for 2021, in January 2021 the group extended borrowings of €6,205 thousand, which at 31 December 2020 were classified as current. In March 2021, a further €5,011 thousand of current borrowings was extended.

Currency risk

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

31 December 2020

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

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)**

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

	Date	Swedish krona (SEK)	Ukrainian hryvnia (UAH)
€1	31 December 2020	10.0343	34.7396
€1	31 December 2019	10.4468	26.4220

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.

€'000	31 December 2020	31 December 2019
Strengthening of euro by 10%	122	141
Weakening of euro by 10%	(149)	(172)

Interest rate risk

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

€'000	2020	2019
Financial instruments with a fixed interest rate		
Financial assets (loans provided to related parties and legal persons) (note 9)	8,237	8,015
Financial liabilities (note 16)	5,322	6,241
Net exposure	**2,915**	**1,774**
Financial instruments with a floating interest rate		
Financial assets (cash and cash equivalents) (note 8)	12,576	7,032
Financial liabilities (including lease liabilities) (notes 16 and 17)	20,537	21,137
Net exposure	**(7,961)**	**(14,105)**

Initialled for identification purposes only
Allkirjastatud identifitseerimiseks
22. 04. 2021
Signature / allkiri
KPMG, Tallinn

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

	31 December 2020	31 December 2019
3 month EURIBOR	(0.545)%	(0.383)%
6 month EURIBOR	(0.526)%	(0.324)%
EONIA	(0.498)%	(0.446)%
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 €213 thousand (2019: €346 thousand). The analysis assumes that all other variables remain constant.

Fair value

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

€'000	2020		2019	
	Carrying amount	Fair value	Carrying amount	Fair value
Cash and cash equivalents (note 8)	12,576	12,576	7,032	7,032
Trade receivables (note 9)	32,331	32,3331	29,141	29,141
Retentions receivable (note 9)	2,117	2,117	763	763
Due from customers (note 9)	14,974	14,974	6,874	6,874
Receivables from related parties (notes 9 and 37)	494	494	739	739
Loans to related parties (notes 9 and 37)	8,237	8,237	8,015	8,015
Other receivables (note 9)	530	530	466	466
Overdrafts (note 16)	(14,354)	(14,354)	(14,175)	(14,175)
Bank and other loans (note 16)	(1,850)	(1,850)	(2,637)	(2,637)
Lease liabilities (notes 16 and 17)	(9,655)	(9,655)	(10,572)	(10,572)
Trade payables (note 18)	(49,206)	(49,206)	(39,841)	(39,841)
Payables to related parties (notes 18 and 37)	(516)	(516)	(987)	(987)
Other payables (note 19)	(7,534)	(7,534)	(4,865)	(4,865)

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

NOTE 35. Contingent liabilities

Contingent income tax liability

€'000	31 December 2020	31 December 2019
Retained earnings of the group	14,543	12,383
Maximum possible income tax liability	(2,728)	(2,441)
Maximum amount that could be distributed as the net dividend	11,815	9,942

The maximum possible income tax liability has been calculated on the assumption that the net dividend and the resulting income tax expense may not exceed consolidated retained earnings as at the end of the reporting period. The maximum possible income tax liability that would arise in 2021 if all of the retained earnings as at the reporting date were distributed has been calculated by applying a 14% tax rate (to the extent of one third of the profit distributed and taxed in 2018, 2019 and 2020) and a 20% tax rate.

Initialled for identification purposes only
Allkirjastatud identifitseerimiseks
22. 04. 2021
Signature / allkiri
KPMG, Tallinn

Guarantees and surety commitments

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

Bank guarantees provided

At the reporting date, the guarantees provided by banks to secure group entities' commitments under construction contracts totalled €40,267 thousand (31 December 2019: €44,397 thousand).

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 €17 thousand (31 December 2019: €42 thousand).

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

Under their service contracts, members of the board are eligible to benefits when their service contracts expire (for a member of the board in an amount of up to six-fold and for the chairman of the board in an amount of up to 12-fold average monthly service fee including performance-related pay). In addition, members of the board will be paid benefits for observing the prohibition on competition after their service contracts expire (for a member of the board up to six-fold and for the chairman of the board up to 12-fold average monthly service fee together with performance-related pay). The payment of the benefits is justified because board members are subject to a prohibition on competition which restricts their activities during the period for which the benefits are paid. At 31 December 2020, the maximum contingent liability that could have arisen from the realisation of the obligation to pay benefits on the expiry of service contracts and for observing the prohibition on competition amounted to €509 thousand.

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 (31 December 2019: €47,829 thousand).

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 €17,988 thousand (31 December 2019: €17,367 thousand). The parent and the subsidiaries have mortgaged assets of the following classes:

Line item in the statement of financial position (€'000)	31 December 2020	31 December 2019
Inventories	8,583	7,975
Investment property	639	639
Property, plant and equipment (land and buildings)	780	767
Mortgages that cannot be linked to a specific asset class*	7,986	7,986
Total	**17,988**	**17,367**

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

Share pledges

In 2020 and 2019, the group's borrowings were secured with a pledge of its shares in Tariston AS (100%).

Initialled for identification purposes only
Allkirjastatud identifitseerimiseks

22. 04. 2021

Signature / allkiri

KPMG, Tallinn

NOTE 37. Transactions with related parties

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

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

The group's purchase and sales transactions with related parties

€'000		2020		2019
Counterparty	**Purchases**	**Sales**	**Purchases**	**Sales**
AS Nordic Contractors	253	0	291	0
Companies of AS Nordic Contractors group	2,147	11	1,344	419
Companies related to owners of AS Nordic Contractors	321	0	576	0
Associates	1,201	313	2,677	309
Companies related to members of the council	89	0	88	0
Total	**4,011**	**324**	**4,976**	**728**

€'000		2020		2019
Nature of transactions	**Purchases**	**Sales**	**Purchases**	**Sales**
Construction services	1,201	21	2,677	2
Transactions with goods	321	0	1,876	307
Lease and other services	406	11	340	410
Other transactions	2,083	292	83	9
Total	**4,011**	**324**	**4,976**	**728**

Receivables from and liabilities to related parties at period-end (notes 9 and 18)

	31 December 2020		31 December 2019	
€'000	**Receivables**	**Liabilities**	**Receivables**	**Liabilities**
AS Nordic Contractors	0	15	0	10
Companies related to owners of AS Nordic Contractors	0	58	0	316
Companies of AS Nordic Contractors group	492	411	495	660
Associates – receivables and liabilities	2	32	244	1
Associates – loans and interest	8,237	0	8,015	0
Total	**8,731**	**516**	**8,754**	**987**

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 2020		31 December 2019	
€'000	**Related party**	**Interest rate**	**Currency**	**Loan**	**Of which interest**	**Loan**	**Of which interest**
V.I. Center TOV	Associate	3.0%	EUR	8,237	1,114	8,015	896
Total				**8,237**	**1,114**	**8,015**	**896**
Of which non-current portion (note 9)				8,237	1,114	8,015	896

During the period, the group recognised interest income on the loan to the associate of €217 thousand (2019: €216 thousand) (note 32). The loan is secured with a mortgage of €7,000 thousand (note 9).

Other transactions with related parties

In the reporting period, the group paid Nõmme Private Education Foundation sponsor support of €83 thousand (2019: €83 thousand). The foundation is related to a member of the group's council.

In 2020, the group purchased a property at Pikksilma 11 in Tallinn designed for housing development from a company of the AS Nordic Contractors group. The purchase price of the property was €2,000 thousand, of which €400 thousand was outstanding at 31 December 2020.

In 2020, the group received from associates a net dividend of €974 thousand (2019: €483 thousand). Information about the 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 2020 amounted to €165 thousand and associated social security charges totalled €54 thousand (2019: €187 thousand and €62 thousand, respectively).

The service fees of the members of the board of Nordecon AS amounted to €432 thousand and associated social security charges totalled €143 thousand (2019: €480 thousand and €158 thousand, respectively).

Information about share options granted to the members of the board is disclosed in note 24.

NOTE 38. Parent company's primary financial statements

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

Statement of financial position

€'000 As at 31 December	2020	2019
ASSETS		
Current assets		
Cash and cash equivalents	3,297	3,397
Trade and other receivables	22,311	17,502
Prepayments	819	869
Inventories	9,877	10,973
Total current assets	**36,303**	**32,741**
Non-current assets		
Investments in subsidiaries	7,345	12,118
Investments in associates and joint ventures	0	1,219
Investment property	4,113	0
Trade and other receivables	21,125	19,483
Property, plant and equipment	5,350	5,600
Intangible assets	12,300	8,308
Total non-current assets	**50,233**	**46,728**
TOTAL ASSETS	**86,536**	**79,469**
LIABILITIES		
Current liabilities		
Borrowings	13,457	8,913
Trade payables	23,272	22,296
Taxes payable	1,228	1,202
Other payables	9,470	6,242
Deferred income	5,412	2,942
Provisions	374	524
Total current liabilities	**53,213**	**42,119**
Non-current liabilities		
Borrowings	3,961	10,002
Other payables	1,514	6
Provisions	366	455
Total non-current liabilities	**5,841**	**10,463**
TOTAL LIABILITIES	**59,054**	**52,582**
EQUITY		
Share capital	14,378	14,378
Own (treasury) shares	(600)	(660)
Share premium*	1,204	1,204
Statutory capital reserve	2,540	2,534
Retained earnings	10,020	9,431
TOTAL EQUITY	**27,482**	**26,887**
TOTAL LIABILITIES AND EQUITY	**86,536**	**79,469**

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

Statement of comprehensive income

€'000	2020	2019
Revenue	138,050	122,041
Cost of sales	(132,804)	(115,411)
Gross profit	**5,246**	**6,630**
Marketing and distribution expenses	(345)	(604)
Administrative expenses	(3,328)	(3,618)
Other operating income	135	104
Other operating expenses	(113)	(49)
Operating profit	**1,595**	**2,463**
Finance income	1,422	1,628
Finance costs	(833)	(779)
Net finance income	**589**	**849**
Profit before income tax	**2,184**	**3,312**
Income tax expense	**0**	**(248)**
Profit for the year	**2,184**	**3,064**
Total comprehensive income for the year	**2,184**	**3,064**

Initialled for identification purposes only
Allkirjastatud identifitseerimiseks
22. 04. 2021
Signature / allkiri
KPMG, Tallinn

Statement of cash flows

€'000	2020	2019
Cash flows from operating activities		
Cash receipts from customers[5]	167,013	142,546
Cash paid to suppliers[6]	(149,007)	(128,275)
Cash paid to and for employees	(10,486)	(7,885)
VAT paid	(4,494)	(2,072)
Income tax	0	(248)
Net cash from operating activities	**3,026**	**4,066**
Cash flows from investing activities		
Paid on acquisition of non-current assets	(95)	(308)
Proceeds from sale of non-current assets	41	151
Capital contributions to subsidiaries	(150)	0
Paid on acquisition of subsidiaries	(2)	0
Cash received on acquisition of a subsidiary	62	0
Loans provided	(3,001)	(359)
Repayments of loans provided	1,644	529
Interest received	186	93
Dividends received	820	1,058
Net cash (used in) / from investing activities	**(495)**	**1,164**
Cash flows from financing activities		
Proceeds from loans received	1,189	2,974
Repayments of loans received	(2,387)	(3,392)
Payments of lease liabilities	(825)	(672)
Interest paid	(609)	(705)
Dividends paid	0	(1,889)
Reduction of share capital	0	(1,892)
Net cash used in financing activities	**(2,632)**	**(5,576)**
Net cash flow	**(101)**	**(346)**
Cash and cash equivalents at beginning of year	3,397	3,743
Decrease in cash and cash equivalents	(101)	(346)
Cash and cash equivalents at end of year	**3,296**	**3,397**

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

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

Initialled for identification purposes only
Allkirjastatud identifitseerimiseks

22. 04. 2021

Signature / allkiri

KPMG, Tallinn

Statement of changes in equity

€'000	Share capital	Own shares	Share premium	Statutory capital reserve	Retained earnings	Total
Balance at 31 December 2018	**16,321**	**(693)**	**1,186**	**2,534**	**8,259**	**27,607**
Profit for the year	0	0	0	0	3,064	3,064
Dividend distribution	0	0	0	0	(1,892)	(1,892)
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**
Balance at 31 December 2019	**14,378**	**(660)**	**1,204**	**2,534**	**9,431**	**26,887**
Profit for the year	0	0	0	0	2,184	2,184
Acquisition of an investment in a subsidiary	0	0	0	6	297	303
Dividend declared	0	0	0	0	(1,892)	(1,892)
Balance at 31 December 2020	**14,378**	**(660)**	**1,204**	**2,540**	**10,020**	**27,482**
Carrying amount of interests under control and significant influence	-		-	-	-	(7,345)
Value of interests under control and significant influence under the equity method	-		-	-	-	7,985
Adjusted unconsolidated equity at 31 December 2020	**-**		**-**	**-**	**-**	**28,122**

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 2020 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 (22 April 2021) have been properly reported and disclosed in the consolidated financial statements;
- Nordecon AS and its subsidiaries are going concerns.

Gerd Müller
Chairman of the Board
22 April 2021

Priit Luman
Member of the Board
22 April 2021

Maret Tambek
Member of the Board
22 April 2021

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
28 April 2021

Andri Hõbemägi
Member of the Council
28 April 2021

Vello Kahro
Member of the Council
28 April 2021

Sandor Liive
Member of the Council
28 April 2021

Andre Luman
Member of the Council
28 April 2021

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 2020, 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 59 to 118 of the Nordecon AS group annual report. The consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2020;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated 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 company in accordance with the Code of Ethics for Professional Accountants (Estonia) (including Independence Standards) 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. A full-scope audit was performed for four of these components: Nordecon AS, Nordecon Betoon OÜ, Embach Ehitus OÜ and AS Tariston.

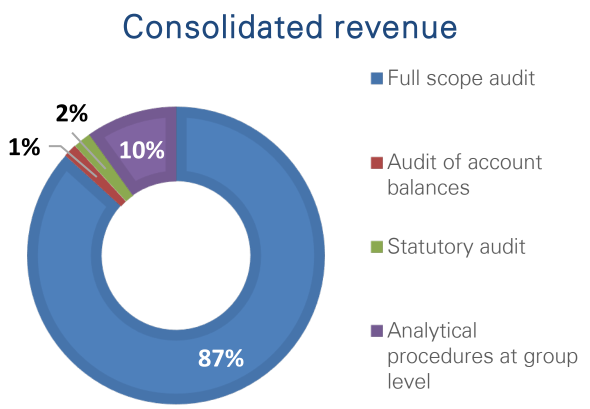
For the remaining two significant components (based on the risk characteristics), OÜ Kalda Kodu and OÜ Eurocon, we conducted audits of selected account balances at group level.

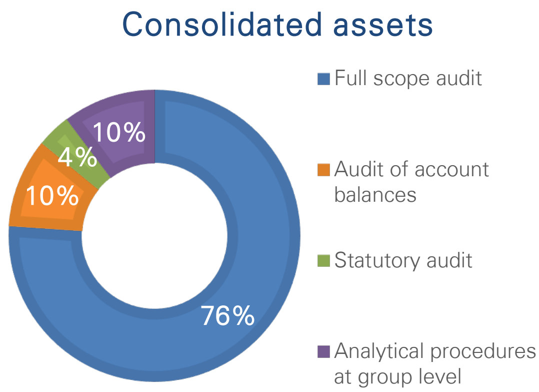
For OÜ Kaurits, we used the results of the statutory audits conducted in accordance with Estonian legislation. OÜ Kaurits was not individually significant from the point of view of the group but the statutory audit was required by local legislation.

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, Embach Ehitus OÜ, AS Tariston and OÜ Kaurits and the audits of selected account balances in respect of 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 procedures mentioned above 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 2020 includes the loan provided to the group's Ukrainian associate with the carrying amount of	In this area, we conducted, among others, the following audit procedures:

€8,237 thousand (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 2020 includes goodwill in the amount of €14,176 thousand, further discussed in note 15. The goodwill has been allocated to five cash-generating units (CGUs). Relevant financial	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;

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 contained in the group's consolidated annual report in addition to the consolidated financial statements and our auditor's 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

Report on Compliance with the Requirements for iXBRL Tagging of Consolidated Financial Statements included within the European Single Electronic Format Regulatory Technical Standards (ESEF RTS)

We have undertaken a reasonable assurance engagement on the iXBRL tagging of the consolidated financial statements included in the digital files 48510000D8HSLK854I81-2020-12-31-EN.zip prepared by Nordecon AS.

Management responsibility for the digital files prepared in compliance with the ESEF RTS

Management is responsible for preparing digital files that comply with the ESEF RTS. This responsibility includes:

- the selection and application of appropriate iXBRL tags using judgement where necessary;
- ensuring consistency between digitised information and the consolidated financial statements presented in human-readable format; and
- the design, implementation and maintenance of internal control relevant to the application of the ESEF RTS.

Auditors responsibility

Our responsibility is to express an opinion on whether the electronic tagging of the consolidated financial statements complies in all material respects with the ESEF RTS based on the evidence we have obtained. We conducted our reasonable assurance engagement in accordance with International Standard on Assurance Engagements 3000 (Revised), Assurance Engagements Other than Audits or Reviews of Historical Financial Information (ISAE 3000) issued by the International Auditing and Assurance Standards Board.

A reasonable assurance engagement in accordance with ISAE 3000 involves performing procedures to obtain evidence about compliance with the ESEF RTS. The nature, timing and extent of procedures selected depend on the practitioner's judgment, including the assessment of the risks of material departures from the requirements set out in the ESEF RTS, whether due to fraud or error. A reasonable assurance engagement includes:

- obtaining an understanding of the tagging and the ESEF RTS, including of internal control over the tagging process relevant to the engagement;
- obtaining sufficient appropriate evidence as to the operating effectiveness of relevant controls over the tagging process when the assessment of the risks of material misstatement includes an expectation that such internal controls are operating effectively or procedures other than testing controls cannot alone provide sufficient appropriate evidence;
- reconciling the tagged data with the audited consolidated financial statements of the company dated 31 December 2020;
- evaluating the completeness of the group's tagging of the consolidated financial statements;
- evaluating the appropriateness of the group’s use of iXBRL elements selected from the ESEF taxonomy and the creation of extension elements where no suitable element in the ESEF taxonomy has been identified;
- and evaluating the use of anchoring in relation to the extension elements.

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

In our opinion, the consolidated financial statements included in the annual financial report of Nordecon AS identified as 48510000D8HSLK854I81-2020-12-31-EN.zip for the year ended 31 December 2020 are tagged, in all material respects, in compliance with the ESEF RTS.

Other requirements of the auditor's report in accordance with Regulation (EU) No 537/2014 of the European Parliament and of the Council

We were appointed by those charged with governance on 20 May 2020 to audit the consolidated financial statements of Nordecon AS for the period ending 31 December 2020. Our total uninterrupted period of engagement is 15 years, covering the periods ending 31 December 2006 to 31 December 2020.

We confirm that our audit opinion is consistent with the additional report presented to the Audit Committee of the company and we have not provided to the company the prohibited non-audit services (NASs) referred to in Article 5(1) of EU Regulation (EU) No 537/2014. We also remained independent of the audited entity in conducting the audit.

Tallinn, 22 April 2021

Andris Jegers
Certified Public Accountant, Licence No. 171

Kristiina Kivila
Certified Public Accountant, Licence No. 702

KPMG Baltics OÜ
Audit Firm Licence No. 17

KPMG Baltics OÜ

Narva mnt 5
Tallinn 10117
Estonia

Tel +372 626 8700
www.kpmg.ee

Profit allocation proposal

Distributable profit of Nordecon AS

	€'000
Retained earnings of prior periods	12,077
Profit for 2020	2,466
Total distributable profit at 31 December 2020	**14,543**

The board proposes:

1. Making a dividend distribution of €0.06 per share (€1,892 thousand in total);
2. Not making any transfers to the capital reserve.

Gerd Müller	Chairman of the Board	22 April 2021
Priit Luman	Member of the Board	22 April 2021
Maret Tambek	Member of the Board	22 April 2021

GRI content index

The group has prepared its annual report in accordance with the internationally recognised and widely used GRI (Global Reporting Initiative) Sustainability Reporting Standards. The topics required by GRI and the rest of the directors' report have been integrated into a single report.

The report discloses information about environmental, social, responsible management and market behaviour topics which are the most material in the light of the group's activities, impacts and stakeholder expectations. The GRI content index table presented below summarises the activities and summarised data of the parent company Nordecon AS and its subsidiaries Nordecon Betoon OÜ, Embach Ehitus OÜ, Tariston AS, Kaurits OÜ, NOBE Rakennus Oy, SweNCN AB and Eurocon Ukraine TOV unless otherwise stated. Although group entities have arranged the management of the topics differently, the annual report strives to reflect common features, similar policies and examples of best practice.

In addition to the approaches to managing social responsibility topics described in this report, the approaches for some aspects which apply to 2020 are described in more detail in the group's earlier annual reports.

GRI standard	Disclosure number	Disclosure	Location in report and/or explanation
Foundation (GRI 101: 2016)			
General disclosures (GRI 102: 2016)			
Organisational profile			
	102-1	Name of the organisation	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 organisation	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 in the reporting period	Pages 17
	102-11	Precautionary principle or approach in environmental matters	Pages 16, 44-47
	102-12	Voluntary initiatives	Pages 29, 41, 45
	102-13	Membership in associations	Page 50
Strategy			
	102-14	Statements from senior decision-makers	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	Pages 55-56

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	The group's major stakeholder groups are owners, employees, customers, subcontractors, suppliers, local residents, local municipalities, regulators, supervision authorities, schools, professional organisations, NGOs, etc.
	102-41	Collective bargaining agreements	Group entities do not have collective bargaining agreements.
	102-42	Identifying and selecting stakeholder groups	Relevant stakeholder groups are those on which the group's activities have the strongest impact and which have the strongest impact on the group's activities.
	102-43	Approach to stakeholder engagement	Pages 10, 30, 33-34, 37-39, 43-44, 50-51 (the group communicates regularly with the closest stakeholder groups – the opinion, satisfaction and expectations of owners, employees, customers, subcontractors and suppliers are highly important. Also, the people that live near the group's construction sites and local municipalities are involved in every project, if necessary. The relations with regulators and supervision authorities are driven by the need to comply with legislation and other standards. The group also works with schools, professional organisations and NGOs.)
	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	In 2016 the group analysed how its stakeholders' possible expectations to corporate responsibility relate to the group's understanding of the materiality of different topics. To obtain high-quality and reliable outcomes, the process was led by independent consultants. The results also apply to 2020. The outcome of the materiality mapping was a list of corporate social responsibility focus topics, divided into three priority categories (GRI 102-47), which reflect their materiality to stakeholders as well as their impacts on and materiality for the group. Since the focus topics are still to a greater or smaller extent material to all group entities, the group's annual report explains their management principles and developments in 2020.
	102-47	List of material topics	1. The most important - Quality and customer experience - Economic performance - Safety of completed buildings - Compliance, transparency, ethics - Management capacity

			2. Very important - Supplier engagement - Societal and community impact - Innovation - Workplace health and safety - Employee engagement - Workforce availability - Environmental impacts of completed buildings 3. Important - Contribution to society - Environmental impacts of construction activities - Contribution to development of the sector - Diversity and fair treatment
	102-48	Restatements of information	No restatements have been made.
	102-49	Changes in reporting	The report covers the same topics as the report for the prior period.
	102-50	Reporting period	Page 1
	102-51	Date of most recent report	The previous annual report was released on 17 April 2020.
	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	Statement of conformity 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		Pages 28-30, 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	Use of BIM in projects	Page 31
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 efficiency standards of buildings	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 organisation	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 in protected areas or 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 emission intensity	Page 47 (disclosures include data on the largest sources of emissions)
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 hires and employee turnover	Page 35 (data is disclosed in as much detail as 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, occupational diseases, absences and lost days, fatal accidents at work	Page 41 (data is disclosed in as much detail as 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	Training hours per employee	Page 39 (data is disclosed in as much detail as 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	Activities related to local community engagement, impact assessments, and development programmes	Pages 50-52
	413-2	Operations with significant actual and potential negative impacts on local communities	Pages 34
	non-GRI	Complaints received from local residents	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 on 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