NORDECON

ANNUAL REPORT 2008

CONTENTS

Object:	Reconstruction works in Tallinn Airport air traffic area
Location:	Lennujaama tee 2, Tallinn, Estonia
Employer:	Tallinna Lennujaam AS
Designer:	K-Projekt AS
Period:	September 2006 – September 2008
Contractor:	Nordecon International AS, Nordecon Infra AS
Project Manager:	Peeter Sarv

HIGHLIGHTS OF 2008

FEBRUARY

Nordecon Infra AS signed an agreement for rehabilitation of the Rõhu–Puhja section of national road 92 in Estonia.

MARCH

Nordecon International AS and Tallinna Sadam AS (Port of Tallinn) signed an agreement for the projection and construction works of quays no 8 and 9 in Paldiski Port.

APRIL

The Group-wide strategy renewal process is started with a goal to develop a new strategy for the Group for 2009-2013.

MAY

Nordecon Infra AS increases its shareholding in a Latvian infrastructure company Nordecon Infra SIA and starting from May Nordecon Infra SIA is a Group subsidiary.

Nordecon International AS, Nordecon Infra AS with other members of a consortium signed an agreement for the projection and construction works of Tallinn–Tartu road Mäo bypass.

Latvian subsidiary Nordecon Infra SIA with other members of consortium signed an agreement for the extension works of water and waste water networks in Riga, Sempeteris district.

JUNE

Nordecon Ehitus AS signed a projection and construction agreement for the expansion works of Lõunakeskus shopping centre in Tartu, Estonia.

AUGUST

Nordecon Infra AS, Nordecon International AS and third member of consortium signed an agreement for the first stage projection and construction Koidula railway border station.

Nordecon International AS and Saarte Liinid AS signed an agreement for construction of quay no 8 of port Virtsu.

SEPTEMBER

Group subsidiary Mapri Projekt OÜ established a subsidiary in Ukraine, MP Ukraine TOV, with principal activities in concrete works carried out in Ukraine.

DECEMBER

Nordecon International AS received a NASDAQ OMX Baltic Market award as a listed company with "The Most Visible Improvement in Investor Relations in 2008".

Group's Latvian subsidiary Nordecon Infra SIA signed a share purchase agreement to acquire a majority shareholding in Latvian road construction company LCB SIA, situated in the North-Eastern part of Latvia.

OUR MISSION

Our mission is to offer our customers complete premier value adding construction and engineering solutions.

We add value to the company by motivating our employees and providing them with clear development opportunities and a contemporary work environment.

VISION

Our goal is to become the fastest growing construction group on the Nordic and Baltic stock exchanges by 2013 in terms of revenue growth.

SHARED VALUES

Reliability

We keep our promises and honour our agreements. We act openly and transparently. We consistently support and promote the best construction practices. We do not take risks at the expense of our customers.

Quality

We are professional builders – we apply appropriate and effective construction techniques and technologies and observe generally accepted quality standards. We provide our customers with integrated cost efficient solutions. We are environmentally aware and operate sustainably.

We value our employees by providing them with a modern work environment that encourages creativity and a motivation system that fosters initiative.

Innovation

We are innovative and creative engineers. We take maximum advantage of the benefits offered by information technology. We inspire our employees to grow through continuous training and balanced career opportunities.

Object:	Apartment and business building (The Snail Tower)
Location:	Väike-Turu tn 5, Tartu, Estonia
Employer:	Nordecon Ehitus AS
Architect:	AB Künnapu & Padrik OÜ
Period:	March 2006 – March 2008
Contractor:	Nordecon Ehitus AS
Project Manager:	Ain Rebane

MESSAGE FROM THE CHAIRMAN OF THE COUNCIL

In many respect, 2008 was a year of new beginnings.

When we began devising our strategy for the period 2009-2013 in spring 2008, our primary desire was to continue streamlining Nordecon International into an efficient and competitive organisation. The Group's development through the growth of the construction market and acquisition of interests in chosen companies had prompted a need for harmonising our operations, both across companies and the target markets. After careful deliberation we have decided that in each of our target markets – Estonia, Latvia, Lithuania and Ukraine – we are going to focus separately on our two main business lines – the construction of buildings and engineering. In addition, we are going to align the structure of our entities with our core skills and will adopt the single Noredcon brand.

On the other hand, it is clear that the construction market of 2009 will not be the same as it was during the years of hectic growth. The construction business is highly cyclical and responds to a positive economic environment with an upsurge that is times larger than the underlying economic growth, as it happened in Estonia. When the situation reverses and economic growth decelerates, the response of the construction market is accordingly more acute. Our previous years' concentration on the efficiency of our site and office staff, both engineers and workers, was definitely not a short-term tactic. It stemmed from our fundamental understanding of the construction business – in a cyclical field only those companies can achieve long-term success and international competitiveness that consistently invest in their efficiency and productivity.

The Group's management and employees are facing the huge task of shaping Nordecon International into a well-integrated and efficient construction organisation. It is a change of a scale we were probably unable to imagine some years ago but which in the current situation is inevitable if we wish to achieve the goal of becoming the fastest growing construction group on the Nordic and Baltic stock exchanges by 2013.

Toomas Luman
Chairman of the Council

CHIEF EXECUTIVE'S STATEMENT

Over a number of years we are forced to admit that the year that has ended was not the best for the construction market. Despite the economic downturn, Nordecon International was able to sustain growth and increase revenue. However, the profit figures fell short of expectations and the focus shifted increasingly on maintaining the Group's liquidity. On the positive side, we are pleased to report that our companies continued competing successfully also in an unstable environment, winning a number of large contracts in various segments of the construction market, such as the construction of the Mäo overtake, berth 8 at Virtsu Harbour and an extension to the Lõunakeskus shopping centre in Tartu. Our year-end order backlog, which is substantial in view of the market situation, gives us confidence and an opportunity to compete successfully also in future tenders.

On signing our annual report for the preceding financial year, we spoke about the need for improving efficiency and set relevant objectives. At the time, the focus was on increasing intra-Group synergies and enhancing the internal systems. The danger signals that emerged in the financial and construction markets in the last months of the past year required the leaderships of the Nordecon companies to focus also on other performance indicators. It has been necessary to make some difficult choices to vigorously reduce the cost base. To date, it is clear that the cost-cutting decisions already made have been apt. Our management teams will remain alert to market developments also in the future.

For the executive management, one of the most important tasks of the year was to develop a new corporate strategy for the next five years. In retrospect, we are pleased to admit that the timing of the process that started in April 2008 was excellent for critically reviewing all our activities with their associated strengths and weaknesses, opportunities and threats. Our perception of the need for change, which would create a foundation for future growth and development already today, increased in line with the downturn of the construction market. You will find a detailed description of the new strategy on the following pages of this report.

Nordecon International is an organisation with extensive experience – in February 2009 we completed our 20th year of operation. We will be meeting the challenges of the next financial year in a changed marketplace, with a new strategy and a new name. I believe in the choices we have made, in our strengths and our people. Therefore, I am confident that we can implement the first stages of our new strategy within a year and that we will remain a competitive international construction group.

Jaano Vink
Chief Executive

CHANGE IN THE GROUP'S BUSINESS NAME

On 26 March 2009 the extraordinary general meeting of the shareholders of Eesti Ehitus AS changed the company's business name for Nordecon International AS. The purpose of the name change was to replace a name that had been chosen to target the Estonian market with a more international one that would underpin the Group's foreign expansion strategy. The adoption of the new brand will also allow harmonising the names of the main subsidiaries both in the home market and in selected foreign markets, which will contribute to creating a more coherent and uniform image of the Group. As an exception, the Ukrainian Group companies will currently maintain the Eurocon brand.

Preparations for the name change began several years ago. Among other things, it was necessary to secure complete intellectual property rights to the name. The fact that the Nordecon name was previously used by the Group's ultimate controlling party (Nordic Contractors AS) helped introduce it to investors and business associates and the construction and real estate development sectors. By March 2009, the Group had obtained all relevant approvals and confirmations regarding its rights to the brand and there were no restrictions for its implementation by a listed company. The Nordecon brand has been registered in the Baltic countries, Ukraine and Belarus. In addition, the Group has registered the domain name www.nordecon.com.

CHANGES IN THE NAMES OF GROUP COMPANIES IN 2009

EESTI EHITUS AS	→	NORDECON INTERNATIONAL AS
LINNAEHITUS AS	→	NORDECON EHITUS AS
ASPI AS	→	NORDECON INFRA AS
ABAGARS SIA	→	NORDECON INFRA SIA
EUROCON LT UAB	→	NORDECON STATYBA UAB

The Group has prepared this annual report under the name of Nordecon International, because at the date the report is authorised for issue, the new name has been approved by the shareholders and registered in all relevant registers. The former business name is used or referred to wherever necessary for legal reasons or clarity. New business names are also used in the case of significant subsidiaries that participated in the name change at the end of March 2009.

THE GROUP'S STRATEGY AND OBJECTIVES FOR 2009-2013

During the period 2005-2008 the revenue of Nordecon International Group grew, on average, by 30 per cent per year. Within the same time, the Group's foreign operations expanded more than three-fold. At the end of 2008 foreign markets were generating already 20 per cent of the Group's revenue. In view of the changes in the external environment and the fact that thanks to vigorous growth the Group has reached the end of one stage of development, the Group's management has devised a new development strategy for the period 2009-2013. The parent company's council approved the new strategy on 12 March 2009.

THE GROUP'S STRATEGIC BASIS AND STRENGTHS

The growth of the Group has outlined particular strengths that underpin the new development strategy:

- An organisation / shareholders oriented towards long-term profitable growth.
- Organisationally separate engineering and construction businesses.
- A flexible, horizontally integrated business model across the Group.
- Experienced management.
- Professional and loyal employees.
- Relative conservatism in risk-taking.
- Centralised support services in combination with strong business organisations .
- A balanced revenue base that is equally divided between buildings construction and engineering.

THE GROUP'S OBJECTIVES FOR 2009-2013

The Group's development strategy for 2009-2013 is governed by two primary goals – to improve the Group's operating efficiency at all its entities and to sustain the

Group's internationalisation. To achieve the goals, management has allocated the desired objectives and the activities required for achieving them to specific time periods.

IN 2009-2010 THE OBJECTIVE OF NORDECON INTERNATIONAL IS TO REINFORCE ITS POSITIONS IN THE HOME MARKET AND TO PREPARE FOR DYNAMIC GROWTH IN FOREIGN MARKETS DURING THE PERIOD 2011-2013. THIS ASSUMES:

- Redesigning the corporate structure and division of operations and activities between Group entities.
- Specifying the customer focus and transforming from the supplier of mass offerings into a proactive seller – adjusting the services aimed at customer segments to customer needs and circumstances.
- Identifying and taking advantage of additional synergies in enhancing the efficiency of the subsidiaries' sales, performance and purchasing operations.
- Reasonably centralising the support services so as to improve their efficiency.
- Developing a uniform organisational culture and identity.
- Preparing a sufficient real estate platform in Estonia (including Tallinn) in anticipation for future growth.
- Creating partnerships for the performance of PPP (public-private partnership) projects.
- Continuing the development of operating principles that correspond to projected growth in foreign markets, and implementing and consolidating processes aimed at increasing the contribution of foreign markets at the parent company.
- Acquiring new companies and developing existing companies in Latvia, Lithuania and Ukraine.

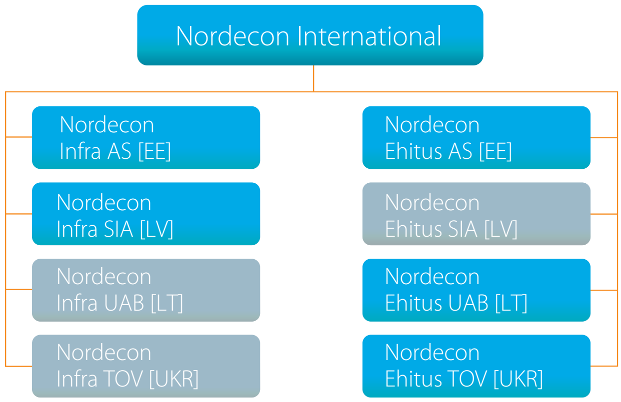
BY 2013 NORDECON INTERNATIONAL EXPECTS TO HAVE REALISED THE POTENTIAL CREATED IN 2009-2010 AND TO BE THE FASTEST GROWING CONSTRUCTION GROUP LISTED ON THE NORDIC & BALTIC STOCK EXCHANGES. THE OBJECTIVES ARE:

- To be the market leader in Estonia in both buildings construction and engineering.
- To earn approximately 50 per cent of the revenue for 2013 in foreign markets.
- To have separate buildings construction and engineering subsidiaries in both Latvia and Lithuani.a
- To penetrate the Ukrainian engineering market, if possible.
- To be ready to penetrate the Belarusian construction market if there are adequate arguments for this.

THE GROUP'S STRUCTURE BY 2013

According to the development strategy, by 2013 the Group will be represented in all its four main target markets in both the buildings construction and engineering segments. In each country, the Group will have a company or a subgroup involved in buildings construction (named as Nordecon "Construction" in local language) and another engaged in engineering (named as Nordecon "Infra"). All companies will focus on their assigned core business and all or the majority of their shares will be held by the Group's parent Nordecon International AS. The above corporate structure has been selected in consideration of the following factors:

- The construction business is local by nature and to succeed a company needs to be locally flexible and focused on a particular business.
- The Group's sustainable and coordinated development in its selected markets assumes assembling all activities that could yield synergies, such as financing, development, etc under single management.



Note: Light colours indicate subgroups which currently do not yet exist but reflect the Group's opportunities for future growth.

Object: Estonian Railways new office building
Location: Toompuiestee 35, Tallinn, Estonia
Employer: Arealis AS
Architect: Urmas Lõokese OÜ AB
Period: December 2006 – June 2008
Contractor: Nordecon International AS
Project Manager: Veiko Krautman

CHANGES IN THE GROUP'S MANAGEMENT STRUCTURE AND OPERATIONS IN 2009

CHANGES IN THE GROUP'S MANAGEMENT STRUCTURE

The first steps for the implementation of the Group's new development strategy were made in the first quarter of 2009. The management structures of the Group's parent and major subsidiaries were changed as of 5 January 2009. The purpose was to prepare for the adoption of a new management model where the parent would deal with the Group's strategic management and the expertise for managing the Group's anchor skills would be assembled to the largest subsidiaries, which would then focus on maintaining and increasing their market shares in their separate, clearly defined lines of business.

MANAGEMENT BOARD OF NORDECON INTERNATIONAL AS AS FROM 5 JANUARY 2009

Jaano Vink, Chairman of the Board
Sulev Luiga, Member of the Board, Director of Finance
Priit Tiru, Member of the Board,
Buildings Construction Director

In the new structure, Jaano Vink and Sulev Luiga are going to focus on improving the efficiency of Group-wide centralised support services. Priit Tiru will be responsible for the strategic management and international expansion of the buildings construction division. The strategic management and international expansion of the engineering division will be the responsibility of the director of the relevant business line – Margus Vaim.

CHANGES IN THE MANAGEMENT STRUCTURES OF THE MAIN SUBSIDIARIES

Erkki Suurorg and Priit Pluutus who were members of the board of Nordecon International AS (at the time Eesti Ehitus AS) in 2008 will continue working for the Group as the chairman and a member of the board of Nordecon Infra AS (formerly AS Aspi) respectively. The former chairman of the board of AS Aspi, Margus Vaim has stepped up as the director of the engineering division at Nordecon International AS.

Avo Ambur who was also a member of the board of Nordecon International AS in 2008 will continue working for the Group as a member of the board of Nordecon Ehitus AS (formerly Linnaehitus AS). Since 5 January 2009, the chairman of the board of Nordecon Ehitus AS has been Priit Jaagant who was previously the chairman of the board of Group company Mapri Projekt OÜ. The former chairman of the board of Nordecon Ehitus AS Priit Tiru has stepped up as a member of the board of the Group's parent company.

CHANGES IN THE GROUP'S BUSINESS STRUCTURE

One of the aims of the new development strategy was to streamline the corporate structure and the division of responsibilities between Group entities.

In the first stage of streamlining, the responsibilities of Group companies were clearly defined and assigned. The Group's strategic management and the management of the Group's support processes will gradually transfer to the parent company. After that, Nordecon International AS will become essentially a holding company that has to ensure the development of the Group in all the markets where it operates. Despite this, Nordecon International AS will continue participating in major domestic and international construction tenders, where it expects to derive its competitive edge from the possibility of combining the competencies of its subsidiaries. The most important objective for the parent is to ensure the Group's international expansion.

The Group's core business will be conducted by its main subsidiaries. For structural streamlining, the core competencies have been separated into two main groups – buildings construction and engineering. Business activities have been divided between the main subsidiaries on the same principle. This allows assembling the Group's best expertise in companies that can best employ it for improving operating efficiency and effectiveness.

Along with the name change across the Group (see *Change in the Group's business name in Management's discussion and analysis*), business activities have been divided as follows:

- In Estonia, the main buildings construction operations have been assembled in Nordecon Ehitus AS (formerly Linnaehitus AS) that is represented in Northern Estonia (Tallinn) and Southern Estonia (Tartu). Eston Ehitus AS will continue as a regionally strong buildings construction company in Western Estonia. In the near future, Nordecon Ehitus AS will be transformed into a subgroup uniting all of the Group's buildings construction and development companies in Estonia.

- Engineering and infrastructure operations in Estonia have been assembled in the Nordecon Infra AS subgroup (formerly Aspi AS), which also includes subsidiaries involved in road maintenance and the sale and maintenance of construction equipment and machinery.

- Mapri Projekt OÜ, which is one of the largest concrete works companies in Estonia, will continue as a subsidiary of Nordecon Infra AS, providing, where necessary, its services also to intra-Group buildings construction and engineering companies.

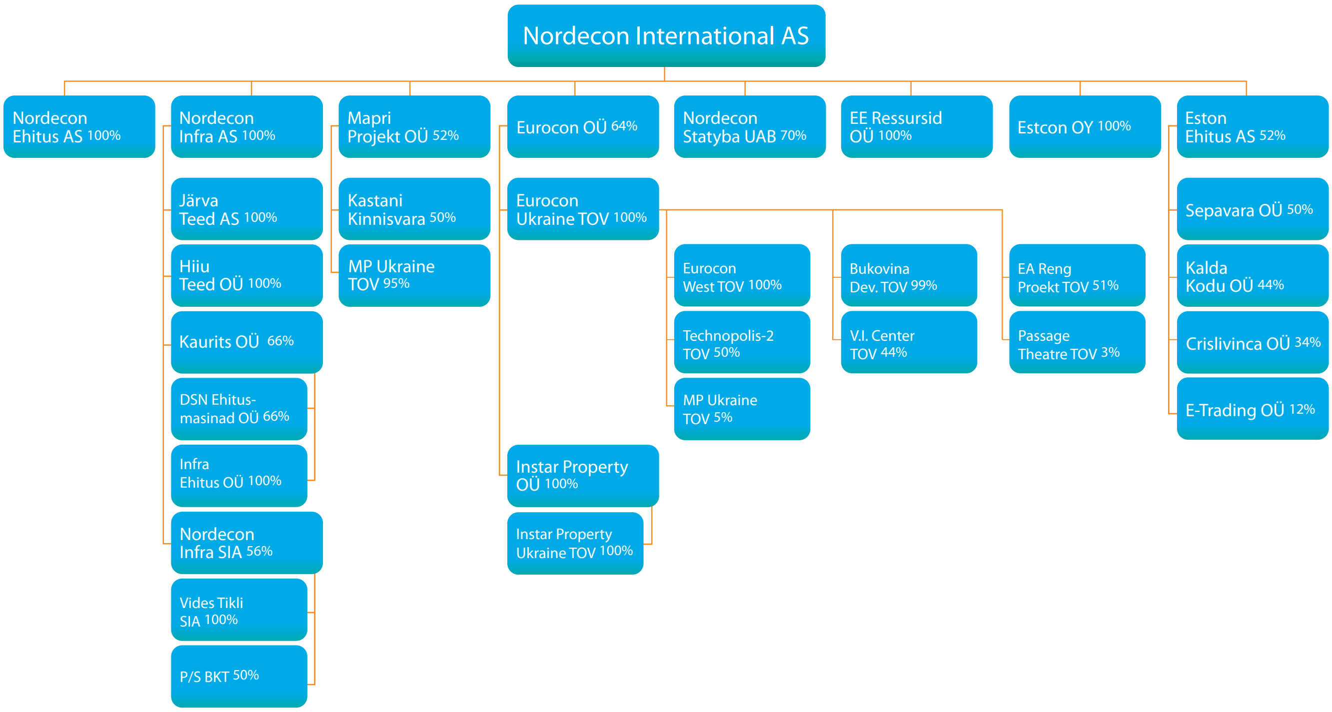
- The Latvian-based Nordecon Infra SIA (formerly Abagars SIA) will continue operating in its current segments. At the end of January 2009 the Group completed the acquisition of a new subsidiary LCB SIA through which the Group will enter the Latvian road construction market. As a result of intra-Group restructuring, in 2009 the Group's parent will become the direct majority shareholder of Nordecon Infra SIA.

- As regards the operations of the Lithuanian-based Nordecon Statyba UAB (formerly Eurocon LT UAB), the Group is considering two alternatives. According to one, the company will continue operating in its selected segment (buildings construction). According to another, the Group's current action plan will be revised in the light of changes in the external environment and, if reasonable and justified, in 2009 the company's operation will be temporarily suspended. A decision to suspend operations in the short term will not change the Group's strategic objectives in the Lithuanian construction market and will not involve the sale or liquidation of the company.

- No changes have been planned for the Group's Ukrainian a construction companies, which will continue operating in their current segments and locations (primarily in Kiev and Lvov). Owing to the situation in the real estate market, the Group has suspended the development of its two real estate projects in Ukraine.

THE GROUP'S STRUCTURE IN 2008

The Group's structure at 31 December 2008, including the parent company's direct and indirect interests in subsidiaries and associates*:



* The chart has been adjusted to reflect the name change that took place in 2009 (see Change in the Group's business name in Management's discussion and analysis).

MAJOR CHANGES IN THE GROUP'S STRUCTURE IN 2008

NORDECON INTERNATIONAL AS

In February, the Group's parent acquired a 2.5 per cent stake in Eurocon OÜ from a minority shareholder. In April, a 4 per cent stake in Eurocon OÜ was sold to a minority shareholder by increasing the entity's share capital. After the transactions, the parent's ownership interest in Eurocon OÜ is 64 per cent.

NORDECON INFRA AS

In May, Nordecon Infra AS acquired a 56 per cent stake in the Latvian company Nordecon Infra SIA (at the date of the transaction Abagars SIA) from its subsidiary Kaurits OÜ.

In May, Nordecon Infra AS acquired an additional 14 per cent stake in Kaurits OÜ that raised the Group's ownership interest in the entity to 66 per cent.

EUROCON OÜ

In February, Eurocon OÜ acquired a 4 per cent stake in Eurocon Ukraine TOV, raising its ownership interest in the entity to 100%. In April the shareholder structure of Eurocon OÜ changed as the former minority shareholder in Eurocon Ukraine TOV was allowed to acquire a 4 per cent stake in Eurocon OÜ.

EUROCON UKRAINE TOV

In April, Eurocon Ukraine TOV sold its entire 50 per cent interest in the Ukrainian company Baltic Development TOV.

In June, Eurocon Ukraine TOV divested its entire 10 per cent investment in the Ukrainian company European House TOV.

In September, Eurocon Ukraine TOV sold 8 per cent of its interest in the Ukrainian company V.I. Center TOV.

In 2008 Eurocon Ukraine TOV gradually divested itself of 87 per cent of its interest in Passage Theatre TOV.

Object:	Reconstruction of Tartu road
Location:	Tartu road km 20,0 - 26,5, Estonia
Employer:	Estonian Road Administration
Designer:	Toner Projekt OÜ
Period:	May 2007 – September 2008
Contractor:	Nordecon Infra AS
Project Manager:	Taivo Möll

SIGNIFICANT CHANGES IN THE GROUP'S STRUCTURE AFTER THE BALANCE SHEET DATE

In December 2008, the Latvian subsidiary Nordecon Infra SIA signed a contract by which it acquired a 75 per cent interest in the Latvian company LCB SIA. The title to the shares transferred in January 2009. The Group's indirect interest in LCB SIA is 42 per cent.

In January 2009, Nordecon International AS acquired a 56 per cent stake in the Estonian company Kalda Kodu OÜ. The remaining 44 per cent of the entity's capital was already held by Eston Ehitus AS in which the Group's interest is 52 per cent. Altogether, through its direct and indirect ownership interests, Nordecon International AS currently has a 79 per cent stake in Kalda Kodu OÜ.

In February 2009, Kaurits OÜ acquired an additional 34 per cent interest in DSN Ehitusmasinad OÜ, becoming the entity's sole shareholder. After the transaction, the Group's indirect ownership interest in DSN Ehitusmasinad OÜ amounts to 66 per cent.

In March 2009, Nordecon Ehitus AS acquired a 50 per cent stake in the Estonian property developer Unigate OÜ. In accordance with the shareholder agreements, the investment is an interest in a joint venture.

FINANCIAL REVIEW

MARGINS

Nordecon International Group ended 2008 with a gross profit of 357.8 million kroons (22.9 million euros), a 28 per cent decrease from the 499.9 million kroons (31.9 million euros) earned in 2007.

Consolidated net profit for the year was 171.3 million kroons (10.9 million euros). Compared with the 289.8 million kroons (18.5 million euros) generated in 2007, net profit decreased by 41 per cent. The decline results largely from a decline in the profitability of construction contracts and an increase in income tax expense (13 million kroons or 0.9 million euros up on 2007), triggered by the record dividends distributed in 2008 for strong performance in prior periods. In addition, net profit was adversely affected by losses on investments in the Ukrainian associates where the weakening of the local currency against the euro and the Estonian kroon gave rise to additional exchange losses on liabilities denominated in foreign currencies.

The key profitability ratios monitored by the Group's management weakened mostly on account of adverse changes in the operating environment. As anticipated, margins were severely impacted by the rapid economic recession and the ensuing construction sector slump that hit the Group's target markets. The main sector-specific indicator of change was the increasing excess of construction capacities over the number of projects on offer. Low demand that was insufficient for meeting the business needs of all market players triggered increasing pressure for lowering the prices. Although the gross margin slipped from 13.3 per cent in 2007 to 9.3 per cent, it remained within a range that is strong in the context of the industry and the current market situation. Owing to the above developments (including growth in dividend tax expense), the period's operating and net margin also followed a downward trend, dropping to 5.4 per cent and 4.4 per cent respectively (2007: 8.2 per cent and 7.7 per cent respectively).

The Group has put a lot of effort in cutting its fixed costs and despite the growth of the Group administrative expenses have not increased significantly. At period end, the ratio of administrative expenses to revenue was 4.7 per cent (31 December 2007: 4.6 per cent). The Group's management believes that in the context of the industry the figure refers to effective cost management that is instrumental in improving operating efficiency. The Group's management intends to maintain the ratio of administrative expenses to revenue at a similar level also in subsequent periods.

CASH FLOWS

Compared with the previous year, the Group's net operating cash flow more than doubled, rising from 147.3 million kroons (9.4 million euros) to 305.0 million kroons (19.5 million euros).

The Group has been actively investing in new growth opportunities. Thus in 2008 a significant portion of cash outflows from investing activities, i.e. 211.3 million kroons (13.5 million euros), was attributable to the acquisition of subsidiaries and the business combinations of prior periods (the acquisition of Eston Ehitus AS in the last quarter of 2007). Compared with 2007 when investing activities resulted in a net inflow of 10.7 million kroons (0.7 million euros), in 2008 investment activities heightened, giving rise to a net outflow of 156.6 million kroons (10.0 million euros). The period's inflows from investing activities comprised mainly loan settlements and proceeds from the disposal of investments in associates.

The largest one-off outflow from financing activities was related to the distribution of dividends, which at 104.1 million kroons (6.7 million euros) were two times larger than in the previous financial year. Financing activities generated a net outflow of 88.3 million kroons (5.6 million euros). In 2007, net financing outflow was 77.9 million kroons (5.0 million euros). The net amount of loans received and repaid in 2008 was positive at 106.0 million kroons (6.8 million euros) against the also positive 61.6 million kroons (3.9 million euros) the year before.

In 2008, the Group's cash and cash equivalents increased by 60.1 million kroons (3.8 million euros); in 2007 the corresponding rise was 80.1 million kroons (5.1 million euros).

At 31 December 2008, the Group's cash and cash equivalents stood at 296.2 million kroons (18.9 million euros) against 236.1 million kroons (15.1 million euros) at 31 December 2007. The growth in net operating cash inflow and liquid funds attests to the quality of the Group's trade receivables and the Group's financial capability in subsequent periods.

INVESTMENT

GROWTH IN THE GROUP'S NON-CURRENT ASSETS IN 2008:

	in thousands of kroons		*in thousands of euros*	
	2008	**2007**	**2008**	**2007**
Long-term investments	919	57,524	115	3,676
Investment property	-17,201	109,785	-1,099	7,017
Property, plant and equipment	41,547	-1,926	2,911	-123
Intangible assets	31,965	108,187	2,043	6,914

MAJOR MOVEMENTS IN 2008

- Loan and interest receivables from associates increased by 50.5 million kroons (3.2 million euros). Investments in associates decreased through divestment of interests by 39.3 million kroons (2.5 million euros).

- Owing to the price decrease in the real estate market, investment properties were written down by 11.5 million kroons (0.7 million euros). In addition, the Group changed the designated purpose of properties of 5.7 million kroons (0.4 million euros).

- In the class of property, plant and equipment, additions comprised mainly road construction equipment. Altogether, the Group purchased machinery and equipment of 68.0 million kroons (4.3 million euros).

- Intangible assets increased on account of goodwill of 33.1 million kroons (2.1 million euros) acquired on the acquisition of subsidiaries. The Group acquired goodwill both through business combinations and the acquisition of minority interests.

The Group's investment strategy does not foresee any major changes for the next financial year.

KEY FINANCIAL FIGURES AND RATIOS

Figure / ratio	2008	2007	2006
Weighted average number of shares	30,756,728	30,756,728	30,756,728
Earnings per share (in kroons)	4.73	8.70	5.75
Earnings per share (in euros)	0.30	0.56	0.37
Revenue growth	3.1%	49.9%	49.5%
Average number of employees	1,232	1,103	871
Revenue per employee (in thousands of kroons)	3,140	3,402	2,875
Revenue per employee (in thousands of euros)	201	217	184
Personnel expenses to revenue, %	12.7%	12.3%	11.0%
Administrative expenses to revenue, %	4.7%	4.6%	5.0%
EBITDA (in thousands of kroons)	281,161	370,581	236,367
EBITDA (in thousands of euros)	17,969	23,684	15,107
EBITDA margin, %	7.3%	9.9%	9.4%
Gross margin, %	9.3%	13.3%	12.2%
Operating margin, %	5.4%	8.2%	8.2%
Operating margin excluding gains on asset sales, %	5.3%	7.8%	7.0%
Net margin, %	4.4%	7.7%	7.6%
Return on invested capital, %	19.1%	32.7%	33.2%
Return on assets, %	9.1%	17.1%	17.3%
Return on equity, %	20.5%	44.1%	53.6%
Equity ratio, %	36.5%	36.9%	35.8%
Gearing, %	18.2%	13.5%	14.3%
Current ratio	1.33	1.30	1.33

As at 31 December	2008	2007	2006
Order backlog (in thousands of kroons)	2,220,748	2,526,652	2,453,419
Order backlog (in thousands of euros)	141,932	161,482	156,802

* For comparability, the weighted average number of shares is the number of shares after the bonus issues.

Earnings per share (EPS) = net profit attributable to equity holders of the parent / weighted average number of shares outstanding
Revenue per employee = revenue / average number of employees
Personnel expenses to revenue = personnel expenses / revenue
Administrative expenses to revenue = administrative expenses / revenue
EBITDA = earnings before interest, taxes, depreciation and amortisation
EBITDA margin = EBITDA / revenue
Gross margin = gross profit / revenue
Operating margin = operating profit / revenue
Operating margin excluding gains on asset sales = (operating profit - gains on sale of property, plant and equipment - gains on sale of real estate) / revenue
Net margin = net profit for the period / revenue
Return on invested capital = (profit before tax + interest expense) / the period's average (interest-bearing liabilities + equity)
Return on assets = operating profit / the period's average total assets
Return on equity = net profit for the period / the period's average total equity
Equity ratio = total equity / total equity and liabilities
Gearing = (interest-bearing liabilities – cash and cash equivalents) / (interest bearing liabilities + equity)
Current ratio = total current assets / total current liabilities

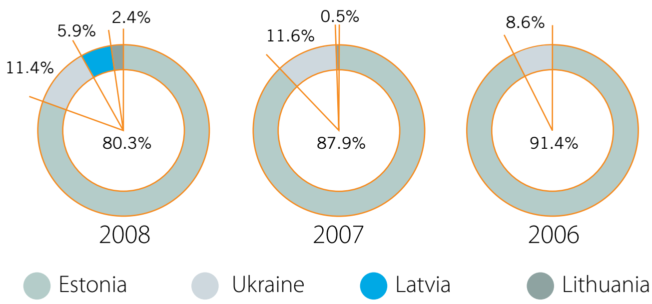
Object: Apartment and business building
Location: Mindaugo g. 23A, Vilnius, Lithuania
Employer: Eurox LT UAB
Architect: AB G. Natkevicius and Partners
Period: September 2007 – March 2009
Contractor: Eurocon Statyba UAB
Project Manager: Saulius Puzas

MARKET REVIEW

In 2008 the Group expanded its operations mainly in Latvia and Lithuania. In percentage terms, the Ukrainian revenues remained stable. Revenue distribution across different geographical segments is a consistently deployed strategy aimed at mitigating the risks arising from undue reliance on a single market. In addition, increasing the proportion of revenue earned outside Estonia is one of the Group's strategic objectives.

In 2008, the Group earned 20 per cent of its revenue outside Estonia; in 2007 the proportion was around 12 per cent.

REVENUE DISTRIBUTION BY GEOGRAPHICAL SEGMENTS



ESTONIA

2008 was the first full year when the Group was strongly represented in all regions of the country – North, South, East and West Estonia. Eston Ehitus AS, which was acquired in the last quarter of 2007, strengthened the Group's presence in Western Estonia. The acquisition of the largest regional construction company in Western Estonia was one of the main sources for revenue growth in the domestic market in 2008 and contributed strongly to growth in the Group's market share.

During the reporting period, the Group proved that it is the market and competency leader in hydraulic construction. In addition to completing projects at Tallinn and Sillamäe ports, the Group acquired two major contracts at Paldiski and Virtsu ports. The Group's subsidiary Nordecon Infra AS completed the construction of the Vaida-Aruvalla section of Tartu road, a project performed together with partners, and won a contract for the design and construction of the Mäo overtake on the same road. In the segment of other engineering works, the Group participated in the rehabilitation of Tallinn Airport airside area. The largest buildings construction projects were performed in Tallinn where the Group completed the head office of Estonian Railways and the Marienthal centre at Mustamäe tee 16. The 23-storey apartment building Tigutorn (Snail Tower), which was completed in Tartu, received recognition from both builders and architects.

Due to various reasons, the Estonian construction market tumbled sharply in 2008. This heightened competition between market players and changed the distribution of demand. The decrease in public sector orders affected mainly buildings (including housing) construction, which plummeted in constant prices by 17 per cent year-over-year. The engineering segments withstood the slump better thanks to public procurement contracts and projects supported by the EU structural funds. At the year-end, the Estonian construction market was characterised by fierce competition that was exerting downward pressure on the construction prices.

UKRAINE

The Group's operations in Ukraine were successful. In buildings construction, the Group completed the O'KEY hypermarket in Kiev and the Aeroc building materials factory in Kiev province. In addition, preparations were made for the Group's own development project – the Borsipol business complex (office buildings and a hotel) near Kiev. However, at the end of the year the project was suspended due to adverse developments in the economic climate. Another significant development project – the Passage Teatralnyi shopping centre in Lvov in Western Ukraine reached the completion phase.

The Group's development operations progressed according to plan. Several property holding companies that had been acquired in previous years for development purposes were divested (e.g. European House and Baltik Development). In addition, to exit from development projects, the Group gradually reduced its interests in projects where it acted also as a builder. For example, in line with the business plan and the completion of the project the Group reduced its participation in the company involved in the construction of the Passage Teatralnyi shopping centre.

In the second half of 2008, the Ukrainian banking and financial systems ran into difficulty. In the first stage, the financing capabilities of both local and foreign banks operating in Ukraine diminished owing the global financial crisis, which drained also financing sources for the Group's Ukrainian development projects and forced the Group to suspend them. In the second stage, the national currency hryvna weakened steeply against the euro and, accordingly, against the Estonian kroon.

Owing to the above, the year 2009 will be hard for the Ukrainian construction business. The Group will focus on maintaining its current operating volumes and managing its fixed costs so as to continue operating profitably. The Group remains interested in the Ukrainian construction market, believing that a market with a population of 46 million has strong prospects.

LATVIA

Nordecon Infra SIA, which upon its acquisition in 2007 was the Group's associate, continued operating successfully in the infrastructure segment, focusing on the construction of water and sewerage systems and the performance of earthworks. In 2008 the Group increased its interest in the company and in May Nordecon Infra SIA (at the date of the transaction Abagars SIA) became the Group's subsidiary.

In 2008, Nordecon Infra SIA was involved in two major infrastructure projects in the Latvian capital Riga – the rehabilitation of the drinking water mains, which began in 2007, and the extension of the water and sewerage networks of the Sempeteris district (42 kilometres), a project of 195 million kroons (12.5 million euros) that was acquired through a joint tender.

In December, the Group entered the Latvian road construction market by purchasing LCB SIA, a road construction company operating in and around Daugavpils, the largest city in the Latgale area in North-Eastern Latvia. Since its establishment in 2005 LCB SIA has been one of the fastest growing road construction companies in the area.

Despite the challenging economic situation in Latvia, the Group will seek to increase the market shares of its Latvian subsidiaries. In 2009, the main sources for growth will be the EU-funded infrastructure projects. However, opportunities can also be seized in road construction where the Latvian operations will be able to tap the Group's expertise and extensive experience gained in the Estonian market.

LITHUANIA

For the Lithuanian subsidiary UAB Nordecon Statyba (formerly Eurocon LT UAB), which was established in 2007, the past financial year was the first full operating period. As any starting-up entity, the company directed a lot of its efforts at developing the management and operating processes and mapping the market.

In its business activity, the subsidiary focused on project management, a service still relatively uncommon in the Lithuanian construction market. The services were provided mostly in the capital Vilnius. The largest project amounted to 117 million kroons (7.5 million euros) and involved the construction of an apartment building.

Since the Group entered the Lithuanian market by establishing a new company instead of acquiring an operating one, it has not been easy to achieve growth. The subsidiary's performance has also been undermined by the overall economic recession that has caused shrinkage of the local construction market.

Object:	Kuperjanov Single Infantry Battalion
Location:	Kose tee 3a, Võru, Estonia
Employer:	Estonian Ministry of Defence
Architect:	ETP Grupp AS
Period:	January 2007 – March 2008
Contractor:	Nordecon Ehitus AS
Project Manager:	Peeter Voovere

BUSINESS REVIEW

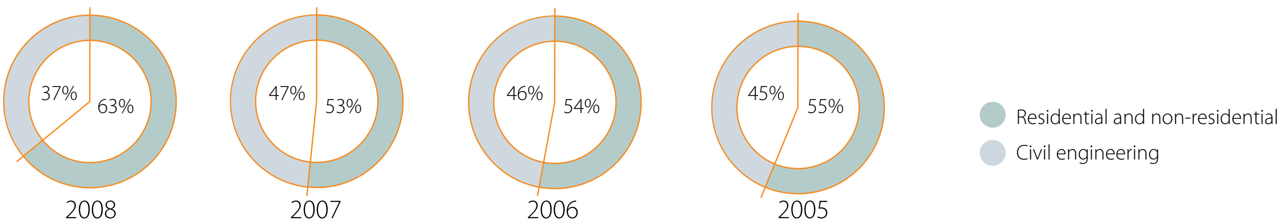
The core business of Nordecon International Group is general contracting and project management in buildings construction and civil engineering. In addition, the Group is involved in road construction and maintenance, environmental engineering, concrete works and real estate development.

Consolidated revenue for 2008 was 3,867.9 million kroons (247.2 million euros), a 3 per cent increase on the 3,752.0 million kroons (240 million euros) generated in 2007. Year-over-year revenue growth in a situation where all of the Group's target markets have experienced adverse developments underscores the success of prior-period acquisitions.

REVENUE GROWTH THROUGH THE YEARS

(In millions)	**2008**	**2007**	**2006**	**2005**
Revenue in EEK	3,868	3,752	2,504	1,547
Revenue in EUR	247	240	160	99
Growth	*3%*	*50%*	*62%*	*5%*

REVENUE DISTRIBUTION BY BUSINESS SEGMENTS



The Group tries to maintain the revenues generated by its business segments (residential and non-residential and civil engineering) in balance as this helps disperse risks and provides a more solid foundation under stressed circumstances when one segment experiences shrinkage in operating volumes. In line with the Group's focus and strategy, the proportion of residential development revenue is consistently maintained at a relatively low level (at or below 20 per cent).

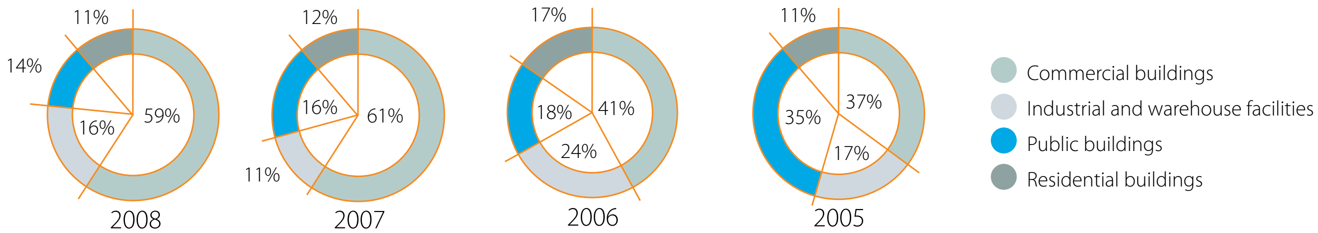
In 2008, the residential and non-residential segment contributed 2,304.5 million kroons (147.3 million euros) and the civil engineering segment 1,421.1 million kroons (90.8 million euros) of the total construction contract revenue. The corresponding figures for 2007 were 1,952.3 million kroons and 1,772.7 million kroons (124.8 million euros and 113.3 million euros) respectively. The year-over-year decrease in the revenue generated by the civil engineering segment results mostly from the timing of major environmental and port construction projects.

In 2008, revenue distribution between the primary segments differed somewhat from that of the previous years. The residential and non-residential segment generated almost two thirds of total revenue whereas in previous periods the contributions of the main segments were more even. The change results from the timing (launch and completion) of major contracts and the distribution of the order backlog at the beginning of the year when the proportion of the residential and non-residential segment was significantly larger (see *Order backlog and major construction contracts signed in 2008 in Management's discussion and analysis*).

Management believes that because of the market situation (see Economic environment and future outlook in Management's discussion and analysis) in 2009 the circumstances will reverse and the proportion of revenue generated by the civil engineering segment will increase. The assessment is supported by the Group's order backlog as at 31 December 2008 where the contracts of the civil engineering segment surpass those of the residential and non-residential segment (see *Order backlog and major construction contracts signed in 2008 in Management's discussion and analysis*).

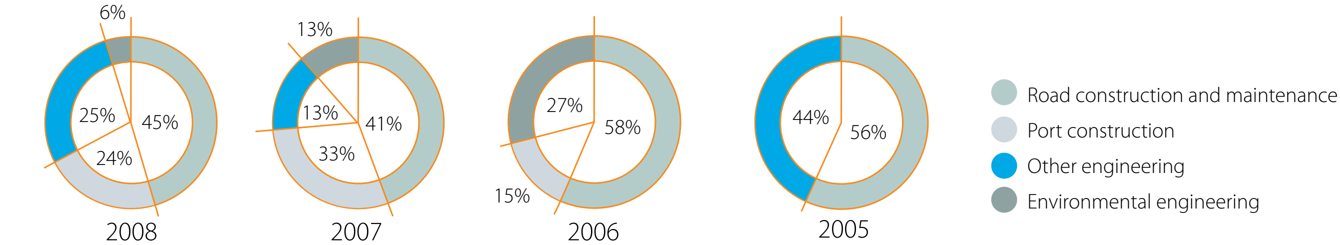
Within the residential and non-residential segment, revenue distribution remained similar to prior periods, with commercial buildings accounting for over 50 per cent of the segment's revenue. Compared with the previous year, revenue distribution within the segment did not change significantly.

REVENUE DISTRIBUTION IN THE RESIDENTIAL AND NON-RESIDENTIAL SEGMENT



Within the civil engineering segment, most of the revenue was generated by road construction and maintenance. Compared with 2007, the contribution of other engineering projects has increased mainly thanks to growth in the Group's Latvian operations. The decline in port construction revenues is attributable to a major project that was almost fully performed in 2007 and did not continue in 2008.

REVENUE DISTRIBUTION IN THE CIVIL ENGINEERING SEGMENT



* In 2005 the civil engineering segment was not divided into as many sub-segments.

A SELECTION OF COMPLETED PROJECTS

Brief description of the project	Performer	Customer
	Nordecon International AS	Arealis AS
Head office of Estonian Railways, 7 floors, gross building area 10,339 m^2	Nordecon International AS	Mustamäe tee 16 AS
Mustamäe tee 16, the Marienthal business building, 8 floors, gross building area 21,879 m^2	Nordecon International AS	Sillemäe Sadam AS
Western pier and berths at Sillamäe Port, length of the pier 1,172 m	Nordecon Infra AS as lead partner	Road Administration
E263 Tallinn-Tartu-Võru-Luhamaa road, Vaida-Aruvalla section, asphalting of main and side roads of 520,000 m^2	Nordecon Infra AS	AS ÖkoSil
Final cover for the Sillamäe waste disposal site, pavement of 520,000 m^2, service roads of 12,000 m^2	Nordecon Ehitus AS	Ministry of Defence of the Republic of Estonia
Infantry training centre Kuperjanov Single Infantry Battalion, Construction Phase II, gross building area 13,515 m^2	Nordecon Ehitus AS	Fama Invest OÜ
Fama shopping centre in Narva, gross building area 12,000 m^2	Eurocon Ukraine TOV	Aeroc OOO
Aeroc building materials factory in Berezan, Kiev province, gross building area 16,300 m^2	Mapri Projekt OÜ	Nordecon International AS
Concrete works for the Nordea building in Tallinn, gross area 7,300 m^3	Mapri Projekt OÜ	Saarte Liinid AS
Laaksaare Port in Tartu County, berth with a total length of 77 m and piers of 167 m	Eston Ehitus AS	Topone OÜ
Maxima shopping centre in Pärnu, gross building area 12,000 m^2	Nordecon Infra SIA	Ministry of the Environment of the Republic of Latvia
Extension and renovation of the Salaspils water and sewerage networks of over 7 km		

Object: Sloka WWTP
Location: Jurmala, Latvia
Employer: YIT Construction SIA
Period: August 2007 – June 2008
Contractor: Nordecon Infra SIA
Project Manager: Marko Aalberg, Janis Veckaktins

ORDER BACKLOG AND MAJOR CONSTRUCTION CONTRACTS SIGNED IN 2008

As at 31 December	2008	2007	2006
Order backlog, in thousands of kroons	2,220,748	2,526,652	2,453,419
Order backlog, in thousands of euros	141,932	161,482	156,802

At 31 December 2008, the Group's order backlog was 2,221 million kroons (142 million euros), a 12 per cent decrease compared with the 2,527 million kroons (161 million euros) posted a year ago.

In the civil engineering segment, the order backlog has been growing year-over-year since the first quarter of 2008. At period-end, the backlog of the civil engineering segment accounted for 59 per cent of the Group's total backlog portfolio (31 December 2007: 10 per cent), reflecting the situation in the construction market where the shrinkage in the residential and non-residential segment surpasses growth in the civil engineering segment. The growth in the Group's order backlog has been significantly undermined by the construction prices, which are considerably lower than a year ago.

Major construction contracts signed in the reporting period are listed below.

MAJOR CONSTRUCTION CONTRACTS SIGNED IN 2008

Brief description of the contract	Cost (EEK '000/ EUR '000)	Country	Expected delivery
Rehabilitation of the Rõhu-Puhja section of national road no 92	92,336 / 5,901	Estonia	August 2009
Construction of berths no 8 and 9 at Paldiski South Harbour	316,363 / 20,219	Estonia	May 2009
Design and construction of the Science Centre AHHAA building	179,100 / 11,447	Estonia	August 2010
Tarmeko KV interior decoration store in Tartu	63,000 / 4,026	Estonia	October 2008
Väike-Paala business building in Tallinn	101,500 / 6,487	Estonia	May 2009
Design and construction of the Mäo overtake on the Tallinn–Tartu road	402,881 / 25,749	Estonia	August 2010
Extension of water and sewerage networks in the Sempeteris district in Riga	194,242 / 12,414	Latvia	December 2009
Extension of the Lõunakeskus shopping centre in Tartu	284,270 / 18,168	Estonia	September 2009
Construction of a leisure and shopping centre in the Darnitski district in Kiev	112,398 / 7,184	Ukraine	May 2009
tStage one in the construction of the Koidula railway border station (joint tender of Nordecon International AS and Teede REV-2)	279,760 / 17,880	Estonia	December 2010
Construction of berth no 8 at Virtsu Harbour	79,000 / 5,049	Estonia	October 2009

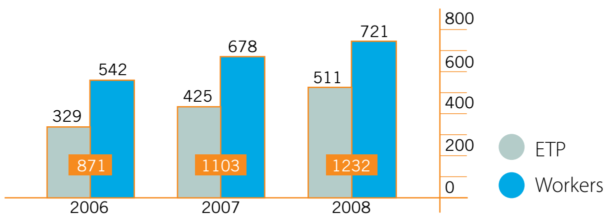
PEOPLE

Nordecon International believes that its most important assets are its people and that the value of the company depends on the professionalism, motivation and loyalty of its employees. Accordingly, management is committed to creating a contemporary work environment that fosters professional growth and development both in terms of career opportunities and the nature of the work.

PEOPLE AND PERSONNEL EXPENSES

In 2008 the Group (including the parent and the subsidiaries) employed, on average, 1,232 people including more than 500 engineers. The proportion of engineers and technical personnel (ETP) has increased over the past couple of years due to the growth of the Group and the size of the contracts. Compared with 2007 the number of staff has increased by approximately 100 mainly on account of the addition of the Latvian company Nordecon Infra SIA to the list of the Group's subsidiaries. In December 2008, the number of staff began decreasing in connection with the first downsizings conducted in connection with an anticipated decrease in future revenues.

NUMBER OF THE GROUP'S EMPLOYEES



The Group's team is dynamic and energetic. The average age of Group companies' board members is 41 and that of engineers and technical personnel 37. The average length of employment is six to seven years and men and women account for 88 per cent and 12 per cent of the staff respectively.

The Group's personnel expenses for 2008, including associated taxes, totalled 489.6 million kroons (31.3 million euros), a 6 per cent increase on the 461.4 million kroons (29.5 million euros) incurred in 2007. At the same time, the number of staff has increased by 12 per cent. The growth in personnel expenses is attributable to the acquisition of subsidiaries and the Group's remuneration policy (including the award of performance-related consideration). However, the ratio of personnel expenses to revenue has risen modestly – from 12.3 per cent in 2007 to 12.7 per cent in 2008.

In 2008, the remuneration of the members of the council of Nordecon International AS totalled 1,443 thousand kroons (92 thousand euros) compared with 1,080 thousand kroons (69 thousand euros) in 2007. The remuneration and benefits of the members of the board of Nordecon International AS totalled 14,514 thousand kroons (928 thousand euros) compared with 14,659 thousand kroons (936 thousand euros) in 2007. In 2008 the board had, on average, five members whereas in 2007 the number was four.

In 2009 several Group companies have had to lay people off due to the economic situation and the recession in the construction market. From the fourth quarter of 2008 until the issuance of this report, the Group's staff has reduced in total by 200 people.

In addition, all subsidiaries have either reduced employee salaries or are preparing to do so. The salaries of engineers and technical personnel will be reduced by 15 per cent and those of workers by 30 per cent.

EMPLOYEE TRAINING

The Group offers its people diverse training opportunities, especially as regards teamwork enhancement and further professional training. In 2008, the staff attended more than 10,000 hours of training courses – approximately 8 hours per person.

The employees are interested in gathering personal references. This inspires project managers and teams to undertake increasingly larger and more complicated projects and to seek more innovative and economical solutions. The Group values teamwork and intra-Group knowledge sharing and recognises the contribution of its experienced staff. People who reach their retirement age but are willing to continue sharing their expertise are offered individual solutions for contributing to the development of the Group.

ATTRACTION OF NEW SPECIALISTS

The Group finds new specialists from Tallinn University of Technology, Tallinn College of Engineering and Estonian University of Life Sciences. Systematic recruitment of young engineers began in 2003 when the lack of qualified engineers and other technical personnel was acute. In order to enhance its attractiveness as an employer, the Group has developed a scholarship programme that allows students working for the Group to dedicate themselves to their studies during term time and to acquire work experience on construction sites during non-term time.

The Group offers diverse and flexible options for combining studies with industry training: a scholarship, remunerated professional training, part-time employment during the period of study, full-time employment in the summer and remunerated study leave. In 2008, the Group employed approximately 80 students, a third of them in the process of acquiring their master's degree. Altogether, 73 per cent of the ETP staff either have or are obtaining a university degree.

Our efforts are yielding results. The fact that the Group finds time and is willing to contribute to the development of young engineers has made it attractive for school leavers and university graduates: the number of students and graduates wishing to perform their industry training or seeking part- or full-time employment with the Group has multiplied. However, in the next financial year the number of people the Group can accept for industry training will decrease due to the difficult situation in the construction market.

PROMOTION OF A HEALTHY LIFESTYLE

In the reporting period the Group promoted a healthy lifestyle by supporting the employees' sports activities. The Group created opportunities for team sports and used a special sports account that was designed for more individual needs.

In autumn 2008, the Group conducted an extensive HIV and AIDS awareness programme at all its companies in partnership with the Healthy Estonia Foundation. Among other activities, the campaign entailed performance of thematic seminars for groups of 10 to 20 people under the guidance of the specialists of the Healthy Estonia Foundation.

Object: Shopping centre in Pärnu
Location: Riia mnt 131, Pärnu, Estonia
Employer: Topone OÜ
Architect: Tõnis Tarbe AB
Period: June 2007 – May 2008
Contractor: Eston Ehitus AS
Project Manager: Olev Jõerand

CHARITABLE ACTIVITIES AND SOCIAL RESPONSIBILITY

Every year the Group supports a number of charitable projects and organisations. In 2008, Nordecon International supported various initiatives with a total of 4.5 million kroons (0.3 million euros).

In the reporting period, the Group continued contributing to society through the coalition *Companies against HIV*, which was established in 2007 in partnership with the Healthy Estonia Foundation and other responsible companies such Swedbank AS, Statoil, TNS Emor and Hill & Knowlton. The purpose of the coalition is to improve dissemination of information about HIV and limiting the spread of the epidemic by the involvement of private sector funds. On joining the coalition, Nordecon International undertook to disseminate information about HIV within the Group and to support the performance of public notification programmes. Staff training began in the second half of 2008. Nordecon International has currently joined the coalition for three years.

The Group's priority is to support organisations and institutions with a social focus such as the Children's Clinic of Tartu University Hospital Foundation (Nordecon Ehitus AS), Healthy Estonia Foundation, Nõmme Private School SA and the Estonian Union for Child Welfare (Nordecon International AS).

In addition, Group companies are active sponsors of sports organisations such as the Junior Team of the Estonian Ski Association (Nordecon International AS), Tartu Ski Club (Nordecon Ehitus AS) and the basketball club BC Kalev/Cramo (Nordecon Infra AS). Eston Ehitus AS supports the world champion and winner of the 2008 Beijing Olympics Gerd Kanter.

Through long-term cooperation agreements, the Group supports Tallinna Linnateater (Tallinn City Theatre), Tallinn University of Technology and numerous cultural and social establishments.

In 2008, the Group made the first major private sector donation since the restoration of independence in Estonia. The donation of approximately 3 million kroons (0.2 million euros) was made to support the acquisition of testing equipment for the Faculty of Civil Engineering of Tallinn University of Technology. In addition to the donation, the Group signed an important cooperation agreement aimed at enhancing scientific research and development, supporting innovation and technology transfers, and promoting formal academic and further professional education in the field of technology.

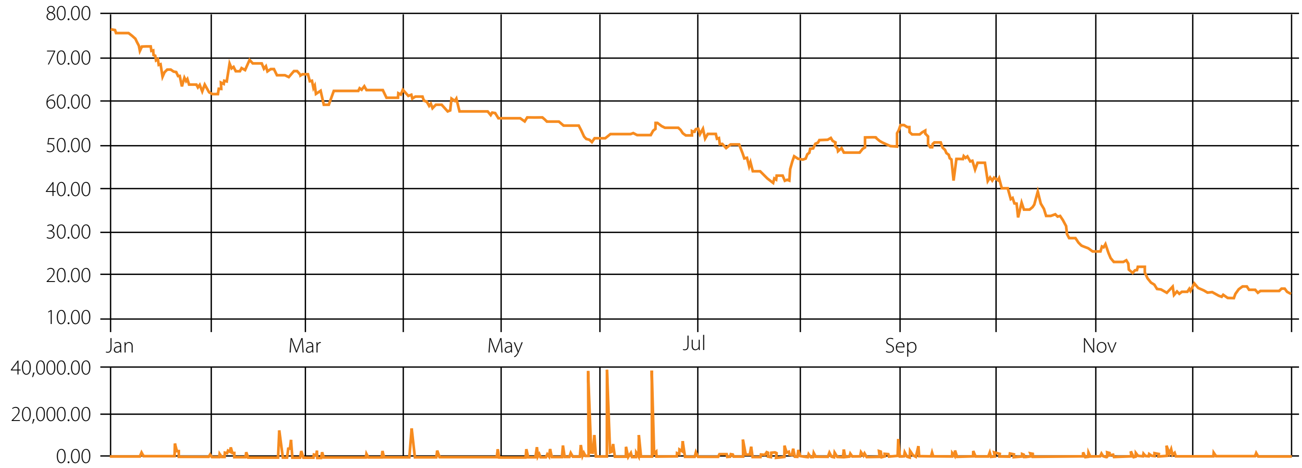
SHARE AND SHAREHOLDERS

SHARE INFORMATION

ISIN code	EE3100039496
Short name of the security	NCN1T (until 3 April 2009 EEH1T)
Nominal value	10.00 kroons / 0.64 euros
Total number of securities issued	30,756,728
Number of listed securities	30,756,728
Listing date	18 May 2006

The share capital of Nordecon International AS consists of 30,756,728 ordinary shares with a par value of 10 Estonian kroons each. Owners of ordinary shares are entitled to dividend as distributed from time to time. Each share carried one vote at general meetings of Nordecon International AS.

MOVEMENTS IN THE PRICE AND TRADED VOLUME OF THE NORDECON INTERNATIONAL SHARE IN 2008 (IN ESTONIAN KROONS (EEK))



MOVEMENTS IN THE PRICE AND TRADED VOLUME OF THE NORDECON INTERNATIONAL SHARE IN 2008 (IN EUROS (EUR))

SUMMARISED TRADING RESULTS

SHARE TRADING HISTORY

	(EEK)			(EUR)		
Price	**2008**	**2007**	**2006**	**2008**	**2007**	**2006**
Open	76.51	166.64	97.01	4.89	10.65	6.2
High	76.51	224.53	187.76	4.89	14.35	12
Low	14.86	69.00	91.69	0.95	4.41	5.86
Last closing price	15.96	76.67	165.38	1.02	4.9	10.57
Traded volume	6,447,283	7,284,775	5,023,787	6,447,283	7,284,775	5,023,787
Turnover, millions	313.68	845.09	563.6	20.05	54.01	36.02
Listed volume (31 December), thousands	30,757	30,757	15,378	30,757	30,757	15,378
Market capitalisation (31 December), millions	490.86	2,358.07	2,543.34	31.37	150.71	162.55

P/E AND P/B RATIOS

THE PRICE EARNINGS RATIO AND THE PRICE TO BOOK RATIO AS AT THE END OF THE FINANCIAL YEAR:

	2008	2007	2006
P/E (*market price per share / earnings per share*)	3,4	8,8	14,8
P/B (*market price per share / book value per share*)	0,6	3,3	5,5

SHAREHOLDER STRUCTURE

THE LARGEST SHAREHOLDERS OF NORDECON INTERNATIONAL AS AT 31 DECEMBER 2008:

Shareholder	Number of shares	Ownership interest
Nordic Contractors AS	18,807,464	61.15%
ING Luxembourg S.A.	1,111,853	3.62%
Ain Tromp	678,960	2.21%
ASM Investments OÜ	519,600	1.69%
JP Morgan Chase Bank/ Dekabank Deutche Girozentrale	500,000	1.63%
Skandinaviska Enskilda Banken Ab Clients	456,758	1.49%
Central Securities Depository of Lithuania	397,488	1.29%
State Street Bank & Trust Co.	355,199	1.15%
The Bank of New York Mellon	353,323	1.15%
Clearstream Banking Luxembourg S.A. Clients	339,910	1.11%
Aivo Kont	339,480	1.10%
Raul Rebane	316,104	1.03%

SHAREHOLDER STRUCTURE AT 31 DECEMBER 2008 ACCORDING TO THE ESTONIAN CENTRAL REGISTER OF SECURITIES:

	Number of shareholders	Ownership interest
Shareholders with interest exceeding 5%	1	61.15%
Shareholders with interest between 1% and 5%	11	17.47%
Shareholders with interest below 1%	1,627	21.38%
Total	**1,639**	**100.00%**

SHARES CONTROLLED BY MEMBERS OF THE COUNCIL AND BOARD OF NORDECON INTERNATIONAL AS AT 31 DECEMBER 2008:

		Number of shares	Ownership interest
Toomas Luman (Nordic Contractors AS, Luman ja Pojad OÜ)*	Chairman of the Council	18,959,144	61.64%
Ain Tromp	Member of the Council	678,960	2.21%
Alar Kroodo (ASM Investments OÜ)*	Member of the Council	519,600	1.69%
Andri Hõbemägi	Member of the Council	34,000	0.11%
Tiina Mõis	Member of the Council	0	0.00%
Meelis Milder	Member of the Council	0	0.00%

* Companies controlled by the individual.

During the preparation of the annual report (the period January – March 2009), the number of shares held by OÜ Luman ja Pojad, a company controlled by the chairman of the council Toomas Luman, increased by 20,000.

		Number of shares	Ownership interest
Jaano Vink	Chairman of the Board	34,000	0.11%
Sulev Luiga	Member of the Board	1,000	0.00%
Priit Tiru*	Member of the Board	0	0.00%

* Priit Tiru has been a member of the board of Nordecon International AS since 5 January 2009. The holdings of members of the board did not change during the preparation of the annual report.

Members of the board and council of Nordecon International AS and companies controlled by them do not have any share options under which they could acquire shares in Nordecon International AS in subsequent periods.

DESCRIPTION OF THE MAIN RISKS

BUSINESS RISKS

To mitigate the risks arising from the seasonal nature of the construction business (primarily the weather conditions during the winter months), the Group has acquired road maintenance contracts that generate year-round business. In addition, Group companies are constantly seeking new technical solutions that would allow working more efficiently under changeable weather conditions.

To manage their daily construction risks, Group companies purchase Contractors' All Risks insurance. Depending on the nature of the project, both general frame agreements and specially tailored project-specific contracts are used. In addition, as a rule, subcontractors are required to secure the performance of their obligations with a bank guarantee issued for the benefit of a Group company. To remedy builder-caused deficiencies which may be detected during the warranty period, all Group companies create warranties provisions. At the end of 2008, the provisions (including current and non-current ones) totalled 14.6 million kroons (0.93 million euros). The corresponding figure for 2007 was 16.8 million kroons (1.1 million euros).

CREDIT RISKS

For credit risk management, a potential customer's settlement behaviour and creditworthiness are analysed already in the tendering stage. Subsequent to the signature of a contract, the customer's settlement behaviour is monitored on an ongoing basis from the making of an advance payment to adherence to the contractual settlement schedule, which usually depends on the documentation of the delivery of work performed. We believe that the system in place allows us to respond to customers' settlement difficulties with sufficient speed. As at the end of the reporting period, our customers' settlement practice was good. In accordance with the Group's accounting policies, all receivables that are more than 180 days overdue are recognised as an expense.

In 2008, income from the recovery of previously expensed receivables surpassed losses from the write-down of receivables by 9.0 million kroons (0.6 million euros). In 2008 the Group has been consistent and effective in its debt recovery activities. As a result, at 31 December 2008 items of 19.3 million kroons (1.2 million euros) that had been expensed in 2007 were classified as recoverable.

LIQUIDITY RISKS

Free funds are placed in overnight or fixed-interest term deposits with the largest banks in Estonia. To ensure timely settlement of liabilities, approximately two weeks' working capital is kept in current accounts or overnight deposits. Where necessary, overdraft facilities are used. At the reporting date, the Group's current assets exceeded its current liabilities 1.33-fold (31 December 2007: 1.30) and available cash totalled 269.2 million kroons (18.9 million euros) (31 December 2007: 236.1 million kroons or 15.1 million euros). Together with unused overdraft facilities, the cash balances provide a sufficient liquidity buffer for conducting operations in an economic environment which is more uncertain than in the previous year.

INTEREST RATE RISKS

The loans taken by Group companies from banks operating in Estonia, Latvia and Ukraine have mainly fixed interest rates. Finance lease contracts have floating interest rates and are linked to EURIBOR. In 2008 the Group's interest-bearing loans and borrowings increased by 154.9 million kroons (9.9 million euros) year-over-year to 554.5 million kroons (35.4 million euros). Owing to the rise in loans and borrowings, interest expense grew by 20.2 million kroons (1.3 million euros) year-over-year to 37.9 million kroons (2.4 million euros) at the end of 2008.

CURRENCY RISKS

As a rule, construction contracts and subcontractors' service contracts are made in the currency of the host country: in Estonia contracts are made in Estonian kroons (EEK), in Latvia in Latvian lats (LVL), in Lithuania in Lithuanian litas (LTL) and in Ukraine in Ukrainian hryvnas (UAH). A significant proportion of services purchased from other countries are priced in the euro, which does not constitute a currency risk for the Group's Estonian, Latvian and Lithuanian entities.

In the last quarter of 2008, the Ukrainian economy and its national currency (the Ukrainian hryvna / UAH) were seriously hit by the global financial crisis. The exchange rate of the local currency that was not officially pegged to any international currency was deeply impacted by a decrease in exports and foreign investment and concerns about the general reliability of the Ukrainian banking system. Despite counter-measures, the local central bank was unable to maintain a stable exchange rate for the Ukrainian hryvna and by the reporting date the latter had weakened against the US dollar and the euro by more than 30 per cent.

The Group has incurred substantial exchange losses on the euro-based loans granted to its Ukrainian entities. Altogether, the Group's foreign exchange losses for 2008 totalled 29.7 million kroons (1.9 million euros) against 11.2 million kroons (0.7 million euros) in 2007. Exchange losses are also included in the results of the Group's equity-accounted associates.

The Group has adopted various measures to reduce losses from the weakening of the Ukrainian hryvna. Where possible, the Group has fixed its receivables in euros or has agreed settlement terms that take into account possible changes in the exchange rate of the hryvna against the euro and the US dollar compared with the date on which the right to demand payment is established. As a result, the Group has been able to recognise exchange gains on the translation of receivables (other operating income) of 37.2 million kroons (2.4 million euros).

Object: Plant of gas-concrete blocks production AEROC
Location: Berezan, Kiev oblast, Ukraine
Employer: AEROC Russia
Designer: EA Reng Projekt
Period: February 2007 – November 2008
Contractor: Eurocon Ukraine LLC
Project Manager: Viljar Aus

ECONOMIC ENVIRONMENT AND FUTURE OUTLOOK

BASED ON THE INFORMATION PUBLISHED BY *EUROSTAT* AND THE UKRAINIAN CENTRAL BANK, THE ACTUAL AND PRELIMINARY FIGURES FOR ECONOMIC GROWTH IN THE COUNTRIES WHERE THE GROUP OPERATES ARE AS FOLLOWS:

	2008 Preliminary	2007	2006	2005	2004
Estonia	-3.6%	7.1%	11.2%	10.2%	8.3%
Latvia	-4.6%	10.2%	11.9%	10.6%	8.7%
Lithuania	3.3%	8.8%	7.7%	7.9%	7.3%
Ukraine	2.1%	7.3%	7.3%	2.7%	12.1%

Rapid economic growth in 2004-2007 and the accompanying upsurge in the demand for construction services had a positive impact on the Group's performance – operating volumes increased, financial position strengthened and, accordingly, the Group's market positions improved. The construction sector benefited from the boom in housing development, the availability of favourable financing options for private companies and the increase in investments made in infrastructure and environmental projects following the Baltic countries' accession to the European Union.

In the second half of 2008 a serious crisis emerged in the global financial system and by the first quarter of 2009 its implications had spread also to the real economies of many countries (including Central and Eastern Europe and the Baltics). Sharp deceleration in the growth of sectors that rely on domestic demand (such as real estate and construction) has triggered negative economic growth, a sudden upsurge in unemployment and deterioration in the competitiveness of the countries and sectors involved. Financial institutions (including central banks) remain impacted by the effects of the credit crunch. As a result, companies are finding it impossible or hard to support their daily operations and make long-term investments regardless of the favourable interest rates prevailing on the international financial markets.

Considering that the current financial crisis and the ensuing economic recession are more extensive and severe than most of the prior ones, developments in the macroeconomic environment are currently hard to predict. Forecasts regarding the global and regional (including Central and Eastern Europe and the Baltics) economic recovery and the revival of economic growth vary too much. Owing to the sensitivity of the forecasts, the Group does not deem it practicable to present any projections of the economic growth or contraction rates for subsequent periods.

OUTLOOKS OF THE GEOGRAPHICAL MARKETS WHERE THE GROUP OPERATES

ESTONIA

In 2009-2010 the Estonian construction market will be characterised by the following features:

- Total demand in the construction market will depend heavily on public procurement tenders and the number and pricing of infrastructure, environmental and other projects launched with the support of the European Union funds (the latter will be critically influenced by the administrative capabilities of the central and local governments). However, even potential growth in the engineering sector will not be able to compensate for the shrinkage in buildings construction. The Group's management estimates that by 2010 the total volumes of the construction market will have decreased 50 per cent compared with 2008.

- The number of development and buildings construction companies will decrease (market consolidation). Buildings construction companies which in 2008 began seeking opportunities to penetrate other market segments such as infrastructure will continue to do so, heightening competition in the segments involved. The continuing slump will lead to mergers, takeovers and bankruptcies also in other fields of construction.

- Owing to the global financial crisis, the amount of money circulating in the economy has decreased considerably. As a result, more and more private sector companies will have difficulty in raising debt to finance new construction projects. The steep decrease in demand may be somewhat alleviated by a competition-induced decrease in prices, which will render investment in construction projects more attractive than it was during the boom of 2006 and 2007.

- Building materials manufacturers that significantly increased their output during the growth phase of the market will be faced by shrinking demand and, consequently, greater strain in meeting the obligations taken for increasing capacities.

- Real estate development companies' ability to service and repay existing loans will weaken and their creditworthiness will decrease. For companies involved in general contracting and project management, this may mean an increase in doubtful and irrecoverable receivables.

- The importance of infrastructure projects will increase and, accordingly, critical success factors will include specialised engineering expertise and experience as well as the availability of relevant resources.

- The deteriorating economic climate and fierce competition in the construction market along with falling demand will cause unemployment for construction workers. The ensuing increase in the availability of labour will lower construction companies' personnel expenses although in the short term the decrease will be lessened by the payment of redundancy benefits.

- Construction projects' financing schemes will change (customers' settlement terms will extend significantly) and additional requirements to the financing provided by general contractors during the construction period will impose pressure on contractors' liquidity.

Nordecon International Group operates in accordance with its long-term objectives that are adjusted for changes in the external environment. Relevant strategic management is the responsibility of the Group's board (see *The Group's strategy and objectives for 2009-2013*).

The Group has prepared for changes in the economic environment by:

- Reducing the fixed cost base by 30 per cent (including cutting personnel expenses by downsizing and lowering salaries and reducing the costs of goods and services purchased).

- Restructuring the Group for better management of the business lines (buildings construction and engineering) and maintaining the competitive advantages.

- Dispersing risks through portfolio design.

- Dispersing activities across geographical areas.

LATVIA AND LITHUANIA

Despite the difficulties in the Latvian political and monetary systems, the volumes of various infrastructure projects financed by the state and local government with the support of EU funding will remain stable or, hopefully, will even increase (such as projects for the rehabilitation of the water supply and central heating systems). Construction activities will be mainly affected by the situation of the financing institutions, a significant decrease in private sector demand, high inflation and stiff competition.

Recent economic developments in Lithuania are similar to the ones in the other Baltic countries. Pressure on the state budget and national currency, slowdown in investment both in the public and private sectors and similar factors directly influence the construction market. The volumes of commercial and residential construction (the Group as a general contractor not a developer) are contracting visibly. Other relevant risks include the stability of banks, increasing competition and the impact of inflation on the construction prices.

Object: Quays no 8 and 9 in Paldiski South Harbour
Location: Paldiski, Harju county. Estonia
Employer: Tallinna Sadam AS (Port of Tallinn)
Designer: Estkonsult AS
Period: March 2008 – May 2009
Contractor: Nordecon International AS
Project Manager: Reedik Raudla

The Group's management has suspended major decisions and remains alert to developments in Latvia and Lithuania because similarly to Estonia, their whole economy is in difficulty and this can also be felt in the construction sector. In the near future, the Group intends to continue activities aimed at achieving organic growth in Latvia and Lithuania. This will be done in careful consideration of developments in the external environment. Significant growth in these markets can only be achieved through additional, carefully selected investments. In Latvia the Group has already started the process by acquiring a new subsidiary LCB SIA (see *Changes in the Group's structure in 2008 in Management's discussion and analysis*).

In view of the situation in the Lithuanian construction market and the prospects of the Lithuanian economy, the Group is also considering the alternative of revising its current action plan in 2009, and does not rule out the possibility of downscaling its Lithuanian operations temporarily should this prove reasonable and justified.

The Group designs its activities in the Latvian and Lithuanian construction markets in accordance with its international expansion strategy (see *The Group's strategy and objectives for 2009-2013*) and believes that in the long-term perspective the two markets have strong potential.

UKRAINE

In Ukraine, the Group will continue acting as a general contractor and project manager in the construction of commercial buildings and production facilities. Activities on development projects that require major investment have been suspended to lower the risks until the situation in the Ukrainian and global financial markets has become clearer.

The main risks in the Ukrainian market are connected with the low administrative efficiency of the central and local government and the judicial system, inflation, and the availability of quality construction inputs. Since October 2008 the Ukrainian monetary and banking systems have been under severe pressure. The Ukrainian national currency hryvna (UAH) has weakened significantly against both the US dollar and the euro, which is causing substantial foreign exchange losses for foreign companies operating in Ukraine that have not hedged their currency risk exposures.

Nevertheless, the Group is confident that the construction market of a country with a population of 46 million will offer attractive business opportunities also in the near future. The Group's main success factors result from operating in a niche where competition is low (the Group offers project management under Western European standards).

CORPORATE GOVERNANCE REPORT

Nordecon International AS has observed the Corporate Governance Recommendations (CGR) promulgated by the NASDAQ OMX Tallinn Stock Exchange since the flotation of its shares on the NASDAQ OMX Tallinn Stock Exchange on 18 May 2006. This report provides an overview of the governance of Nordecon International AS in 2008 and its compliance with the requirements of CGR. It is recommended that an issuer comply with the CGR or explain the deviations in its corporate governance report. In 2008, Nordecon International AS observed the CGR except where indicated otherwise in this report.

Nordecon International AS (until 26 March 2009 Eesti Ehitus AS, registration number 10099962) is a public limited company domiciled in the Republic of Estonia. The address of the company's registered office is Pärnu mnt 158/1, 11317 Tallinn.

SHARE AND SHARE CAPITAL

	Number of ordinary shares outstanding
At 1 January 2008	30,756,728
At 31 December 2008	30,756,728

In 2008, the issuer's share capital did not change. Share capital consists of ordinary registered shares of one type and with a par value of 10 kroons (0.64 euros). Each share carries one vote at meetings of the company and entitles the holder to a proportionate share of dividends as declared from time to time.

The shares of Nordecon International AS are listed in the main equity list of the NASDAQ OMX Tallinn Stock Exchange (Baltic Main List) under the ticker symbol NCN1T (until 3 April 2009 EEH1T). The share register is maintained by the Estonian Central Register of Securities in electronic format. Nordecon International AS has approximately 1,600 shareholders and the number changes constantly. The majority shareholder is Nordic Contractors AS with an approximately 61 per cent interest. The members of the governing bodies of Nordecon International AS and its subsidiaries hold an additional 8 per cent of the shares.

GENERAL MEETING

EXERCISE OF SHAREHOLDER RIGHTS

The general meeting of the shareholders is the highest governing body of Nordecon International AS. General meetings are annual and extraordinary. The powers of the general meeting are provided in the Commercial Code of the Republic of Estonia and the Articles of Association of Nordecon International AS. Under the Articles of Association, shares of different type do not carry rights which might result in unequal treatment of shareholders upon voting. 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 the members of the council. A shareholder may attend the general meeting and vote in person or through a proxy carrying relevant written authorisation.

In the reporting period, the issuer allowed shareholders to submit questions regarding the agenda items also before the date of the general meeting by disclosing in the notice of the general meeting the e-mail address to which shareholders could send their enquiries.

The annual general meeting Nordecon International AS (at the date of the meeting Eesti Ehitus AS) was held on 14 May 2008 at 12.00 in the Conference Centre of Reval Hotel Olümpia.

The issuer was represented at the meeting by the chairman of the board Jaano Vink who attended the meeting and was available throughout the meeting.

The general meeting adopted the following resolutions:

- To approve the annual report of Eesti Ehitus AS for the year ended 31 December 2007 and the council's written report on the annual report.
- To allocate the profit of Eesti Ehitus AS as follows. The company's net profit for 2007 amounts to 267,481,851 kroons (17,095,206 euros) and the retained earnings of prior periods amount to 130,327,891 kroons (8,329,470 euros). To distribute a dividend of 92,270,184 kroons (5,897,140 euros) or 3 kroons (0.19 euros) per share from the net profit for 2007. To transfer 13,374,093 kroons (854,760 euros) to the capital reserve. To retain the rest of the net profit for 2007 and the profits of prior periods. After allocations, the company's retained earnings amount to 292,165,465 kroons (18,672,777 euros).
- To appoint KPMG Baltics AS as the auditor of the company's consolidated financial statements for the years ending on 31 December 2008, 31 December 2009 and 31 December 2010 and to remunerate the auditor in accordance with the audit services agreement signed with the auditor. To sign the agreement with the auditor for three years (2008, 2009 and 2010).
- To remove Mait Schmidt from the council before the expiry of his term of office and to appoint Andri Hõbemägi as a new member of the council of Eesti Ehitus AS. The new member of the council will be remunerated on the same basis as the previous one.

All shares issued by Eesti Ehitus AS are registered ordinary shares. A shareholder may not demand issuance 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 International AS is not aware of any shareholder agreements that restrict the transfer of the shares. Upon the death of a shareholder, the share transfers to the shareholder's heir. From the point of view of Nordecon International AS, a share is considered transferred when the acquirer has been entered in the share register.

No takeover bids corresponding to the definition provided in Chapter 19 of the Securities Market Act of the Republic of Estonia have been made for the shares in Nordecon International AS.

In 2008 Nordecon International AS complied with all provisions of the CGR concerning the exercise of shareholder rights.

CALLING OF A GENERAL MEETING AND DISCLOSURE OF INFORMATION

Notice of a general meeting is given by the board of Nordecon International AS. A notice of an annual general meeting is published in a national daily newspaper at least three weeks in advance and a notice of an extraordinary general meeting is published in a national daily newspaper at least one week in advance. The notice includes information on where the annual report has been or will be made available to the shareholders. The annual report is made available at least two weeks before the general meeting.

The notice of the annual general meeting of 2008 (took place on 14 May 2008) was published in national newspapers and via the information system of the NASDAQ OMX Tallinn Stock Exchange on 16 April 2008.

The annual report of Eesti Ehitus AS and the council's written report on the company's annual report were made available as from 25 April 2008 on the issuer's website at www.eestiehitus.ee/ and on workdays from 9 a.m. to 5 p.m. in the company's registered office at Akadeemia tee 15b, Tallinn. Questions regarding agenda items could be submitted by e-mail to eestiehitus@eestiehitus.ee. Questions, answers, resolutions adopted and statements made at the general meeting were disclosed on the company's corporate website.

In 2008 Nordecon International AS complied with all provisions of the CGR concerning the calling of a general meeting and disclosure of information.

Object:	Semi-detached houses in Nõmme
Location:	Särje tn 24, 26, Tallinn, Estonia
Employer:	Särje Arenduse OÜ
Architect:	AB JVR
Period:	June 2007 – November 2008
Contractor:	Mapri Projekt OÜ
Project Manager:	Taisto Kask

CONDUCT OF A GENERAL MEETING

In most cases, the general meeting has a quorum when more than 50 per cent of the votes represented by shares are present. Generally, a resolution will be adopted when more than half of the votes represented are in favour. In compliance the Commercial Code and the Articles of Association, for the adoptions of some resolutions such as the amendment of the Articles of Association; increase or reduction of share capital; the merger, transformation, separation and dissolution of the company; and removal of the members of the council before the expiry of their term of office, at least two thirds of the votes represented at the meeting have to be in favour.

The working language of the annual general meeting of 2008 was Estonian. The general meeting was not chaired by the chairman of the council or a member of the board. The general meeting was conducted within the planned time-frame. The general meeting was attended by all members of the issuer's board, the chairman of the issuer's council and the issuer's auditor.

The issuer did not deem it practicable to make the annual general meeting available to observers and participants via the Internet.

The annual general meeting of 2008 was attended by shareholders that represented 64.86 per cent of the votes determined by shares. Accordingly, the meeting had a quorum for adopting resolutions. The meeting adopted a separate resolution regarding the allocation of profits.

In 2008 Nordecon International AS complied with all provisions of the CGR concerning the conduct of the general meeting.

BOARD

RESPONSIBILITIES OF THE BOARD

The board is a governing body of Nordecon International 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 alone. The board is responsible for ensuring that Nordecon International AS achieves its objectives. Creation of a suitable environment for the attainment of objectives assumes, among other things, analysing operating and financial risks and organising the company's internal control, accounting and reporting. The board has to observe the lawful instructions of the council of Nordecon International AS.

In 2008 the board of Nordecon International AS met regularly. In addition, extended management meetings were held (including members of the boards of the main subsidiaries) to obtain a better overview of the Group's management and performance.

Members of the board are not authorised to issue or repurchase shares without the permission of the general meeting or the council.

In 2008, the board and council of Nordecon International AS exchanged information in accordance with effective requirements. The board informed the council of the company's performance and financial position on a regular basis.

MEMBERSHIP AND REMUNERATION OF THE BOARD

MEMBERSHIP OF THE BOARD

The council appoints and removes members of the board and appoints the chairman of the board from among them. In accordance with the Articles of Association, the board has one (1) to five (5) members who are elected for a term of three (3) years. Members of the board may not be concurrently members of the council. In 2008 the board had the following members:

Name	Position	Beginning of term of office	Expiry of term of office
Jaano Vink	Chairman of the Board	5 August 2002	31 July 2011
Avo Ambur	Member of the Board, Development Director	7 January 2003	31 December 2008*
Sulev Luiga	Member of the Board, Finance Director	9 July 2007	8 July 201
Priit Pluutus	Member of the Board, Technical Director	1 October 200	31 December 2008*
Erkki Suurorg	Member of the Board, Construction Director	1 December 2005	30 November 2008*

* In accordance with the decision of the council of 28 November 2008, Avo Ambur and Priit Pluutus were removed from the issuer's board before the expiry of their term of office. In addition, the council did not extend the service contract of Erkki Suurorg after its expiry. The decisions were made in connection with the restructuring of Nordecon International Group in 2009 (see The Group's strategy and objectives for 2009-2013 in Management's discussion and analysis). The above persons were appointed to the boards of the subsidiaries of Nordecon International Group: Avo Ambur to Nordecon Ehitus AS, Priit Pluutus and Erkki Suurorg to Nordecon Infra AS.

In 2009, also Priit Tiru was appointed to the board of Nordecon International AS, effective as from 5 January. Previously Priit Tiru was the chairman of the board of Nordecon Ehitus AS (at that time Linnaehitus AS). His service contract is effective for three years.

REMUNERATION OF THE BOARD

The responsibilities of members of the board are set out in their service agreements. A member of the board is paid a monthly service fee, which is fixed in the service agreement. The service fee includes a 10 per cent fee for maintaining the confidentiality of business secrets and adhering to the prohibition on competition. In conformity with the service agreement and subject to a decision by the council, a member of the board may receive the following additional monetary remuneration:

- Additional remuneration for strong operating results.
- Additional remuneration for surpassing the agreed operating results.
- Benefits for adhering to the prohibition on competition after the expiry of the service agreement (twelve-fold average monthly service fee).
- Benefits for the termination of the service agreement (six-fold average monthly service fee).

In 2008, the remuneration and benefits of the members of the board of Nordecon International AS totalled 14,514 thousand kroons (928 thousand euros). The corresponding figure for 2007 was 14,659 thousand kroons (936 thousand euros). In 2008 the board had, on average, five members. In 2007, the number was four.

Object: Businessbuilding Marienthal
Location: Mustamäe tee 16, Tallinn, Estonia
Employer: Mustamäe tee 16 AS
Architect: AB Kirsima ja Niineväli OÜ
Period: March 2007 – November 2008
Contractor: Nordecon International AS
Project Manager: Agu Zilensk

CONFLICT OF INTEREST

Members of the board may not compete with Nordecon International AS without the prior consent of the company's council. Until the date this annual report is authorised for issue, the members of the board have not notified the council of their direct or indirect participation or intention to participate in the same business activities as the issuer.

A member of the board is required to inform other members of the board and the chairman of the council of any business offering made to the member of the board, his close family member or another person related to him that are related to the issuer's business activity. Until the date this annual report is authorised for issue, members of the board, their family members and persons related to them have not received any business offerings that ought to be treated as a conflict of interest.

In 2008 Nordecon International AS complied with all provisions of the CGR concerning the activities of the board.

COUNCIL

RESPONSIBILITIES OF THE COUNCIL

The council deals with the strategic planning of the activities and the strategic management of Nordecon International AS and oversees the activities of the board. The council adopts its resolutions in meetings. Meetings of the council have the sole authority to:

- Approve the strategy.
- Approve a three year development plan.
- Approve the budgets.
- Appoint members of the board and the chairman of the board and remove members of the board.
- Approve the management structure.
- Approve internal accounting regulations.
- Approve the internal control statute and internal audit plans.
- Review quarterly operating results.
- Review the annual report and approve it for presentation to the general meeting.
- Perform transactions and settle legal disputes on behalf of the company with members of the board.

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

The board requires the council's consent for transactions that are outside the scope of the company's ordinary business activity such as:

- Acquisition and disposal of interests in other companies.
- Acquisition, divestment or dissolution of a company.
- Opening and closing of foreign branches and representations.
- Transfer and encumbrance of immovable properties and registered movables (except cars).
- Non-current asset transfers not fixed in the annual budget.
- Making of investments not fixed in the annual budget.
- Assumption, granting and guaranteeing of loans and other obligations outside the scope of ordinary business.
- Establishment and dissolution of a subsidiary.

The council is accountable to the general meeting. The council adopts resolutions in a meeting by simple majority. A meeting has a quorum when over half of the members are present. The council meets according to need but not less frequently than once within three (3) months.

In 2008 the council of Nordecon International AS held 11 meetings.

MEMBERSHIP AND REMUNERATION OF THE COUNCIL

According to the Articles of Association, the council must have three (3) to seven (7) members. The exact number is decided by the general meeting. Members of the council are elected for a term of five (5) years. Members of the council elect a chairman from among themselves. In 2008, the council had the following members:

Name	Position	Beginning of term of office	Expiry of term of office
Toomas Luman	Chairman of the Council, representative of Nordic Contractors AS	9 January 2006	9 January 2011
Alar Kroodo	Vice-Chairman of the Council, representative of minority shareholders	9 January 2006	9 January 2011
Andri Hõbemägi*	Member of the Council, representative of Nordic Contractors AS	14 May 2008	14 May 2013
Mait Schmidt*	Member of the Council, representative of Nordic Contractors AS	9 January 2006	14 May 2008
Ain Tromp	Member of the Council, representative of minority shareholders	9 January 2006	9 January 2011
Tiina Mõis	Member of the Council, independent	9 January 2006	9 January 2011
Meelis Milder	Member of the Council, independent	9 January 2006	9 January 2011

* On 14 May 2008 the general meeting of Eesti Ehitus AS decided to remove from the council Mait Schmidt and elected in his place Andri Hõbemägi.

On 1 April 2006, the general meeting of the shareholders of Eesti Ehitus AS adopted a resolution on the remuneration of the council. A council member's service fee is 10,000 kroons per month. The vice chairman's service fee is 20,000 kroons per month and the chairman's service fee is 30,000 kroons per month. Council members are not entitled to any additional remuneration or termination benefits.

In 2008, the remuneration of the members of the council of Nordecon International AS totalled 1,443 thousand kroons (92 thousand euros). The corresponding figure for 2007 was 1,080 thousand kroons (69 thousand euros).

Object: Tartu City School
Location: Kroonuaia tn 7, Tartu, Estonia
Employer: Tartu City Government
Architect: Salto AB OÜ
Period: January – October 2007
Contractor: Nordecon Ehitus AS
Project Manager: Jaano Tootsi

CONFLICT OF INTEREST

A member of the council may not vote at a meeting in matters concerning provision of consent for a transaction between Nordecon International AS and the member of the council or a similar conflict of interest involving a party related to the member of the council. A member of the council may not compete with Nordecon International AS without the consent of the general meeting or use for personal gain any business offerings made to the issuer. Until the date this annual report is authorised for issue, members of the council have not notified the issuer about any conflicts of interest.

In 2008 Nordecon International AS complied with all provisions of the CGR concerning the activities of the council.

COOPERATION OF THE BOARD AND THE COUNCIL

The issuer's board and council cooperate in ensuring ongoing and effective information exchange. The members of the issuer's board (the chairman of the board and the member of the board, the Director of Finance) participate in meetings of the council that are held once a quarter and where the council reviews the issuer's performance. As a rule, the chairman of the board is also invited to other meetings of the council that discuss matters related to the operation of the issuer.

In 2008 the board and the council cooperated actively in developing the Group's new long-term strategy and development plan. The board designed the strategy in accordance with the instructions received from the council and submitted it to the council for approval.

DISCLOSURE OF INFORMATION

In disseminating information and notifying, Nordecon International AS treats all shareholders equally. The issuer's main information channels for disseminating information to shareholders and investors are its own website and the information system of the NADSAQ OMX Tallinn Stock Exchange.

In disclosing information, the issuer observes the Rules of the NASDAQ OMX Tallinn Stock Exchange and the provisions of the Securities Act. The issuer determined that in 2008 the threshold for notifying of significant construction contracts was 50 million kroons (3.2 million euros). In 2008 Nordecon International AS made 36 stock exchange announcements that were released concurrently in Estonian and in English via the information system of the NASDAQ OMX Tallinn Stock Exchange. In 2008 the supervisory authorities of the stock exchange did not notify the issuer of any shortcomings in the disclosure of information.

Nordecon International AS discloses the following information in Estonian and in English on its corporate website at www.nordecon.com or, via links, on the website of the NASDAQ OMX Tallinn Stock Exchange:

- A brief description of the company.
- Description of the security and trading info.
- The company's Articles of Association.
- Annual and interim financial reports.
- Information on general meetings.
- Current membership of the council.
- Current membership of the board.
- Information on the issuer's auditor.
- Corporate governance report.
- Financial calendar.

In 2008 the issuer did not organise any press conferences. Meetings with investors were held on a current basis at the request of the investors.

The presentations used at meetings with investors were published through the information system of the stock exchange and were also made available on the issuer's website. In 2008 the issuer did not publish the time schedule for meetings with investors and analysts on its website because it did not deem this important.

The issuer did not inform shareholders of meetings with analysts or investors and the possibility of attending such meetings via its website. The issuer does not disseminate inside information at such meetings but uses information based on financial information and presentations that have already been made public. The issuer's investor relations contacts are available on the issuer's website. All shareholders may use the contacts to request a meeting with the issuer's representatives.

In 2008 Nordecon International AS complied with all information disclosure provisions of the CGR except for Article 5.6 that was complied with in part. However, the issuer is convinced that it has provided adequate alternatives and has therefore not violated the principle of equal treatment of shareholders in the disclosure of information.

FINANCIAL REPORTING AND AUDITING

FINANCIAL REPORTING

Preparation of financial reports and statements is the responsibility of the board of Nordecon International AS. The consolidated financial statements of Nordecon International AS are prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union.

The financial statements are prepared and submitted for approval in conformity with the Estonian Accounting Act, the Rules of OMX Tallinn Stock Exchange, and the Estonian Commercial Code.

Nordecon International AS is required to disclose quarterly interim financial reports and the annual report as soon as the report has been approved for issue by the council.

AUDITING

The external auditor(s) of Nordecon International AS is (are) appointed by the general meeting. Prior to the meeting, the board arranges a tender with a view to signing an audit services agreement for three (3) years. One of the purposes of the tender is to agree the best audit fee for the company under comparable audit terms and conditions. In 2008 Nordecon International AS organised a new tender for appointing an auditor for the period 2008-2010. The general meeting decided that KPMG Baltics AS should be appointed auditor of the company and the board signed an audit services agreement with KPMG Baltics AS for the financial years 2008, 2009 and 2010.

In 2008 the audit partner in charge of the audit of the financial statements of Nordecon International AS changed in line with the auditor rotation requirement provided for in the guidelines issued by the Financial Supervision Authority. The new audit partner is Andres Root (KPMG Baltics AS).

In 2008 Nordecon International AS complied with all provisions of the CGR concerning financial reporting and auditing.

DIVIDEND POLICY

In recent years, Nordecon International AS has consistently increased the amount of dividends distributed to shareholders (rounded to millions kroons / euros):

For 2004	28 million kroons / 1.8 million euros
For 2005	30 million kroons / 1.9 million euros
For 2006	46 million kroons / 2.9 million euros
For 2007	92 million kroons / 5.9 million euros

The board's proposal for 2008: 31 million kroons / 2 million euros.

To date, the amount of a dividend distribution has been determined by reference to:

- The dividend expectations of the majority shareholder Nordic Contractors AS.
- The overall rate of return on the (Estonian) securities market.
- The optimal ratio and volume of debt and equity capital that is required for the Group's profitable growth and sustainable development.

THE BOARD CONFIRMS THAT MANAGEMENT'S DISCUSSION AND ANALYSIS PRESENTS FAIRLY THE DEVELOPMENT, FINANCIAL PERFORMANCE AND FINANCIAL POSITION OF THE COMPANY AND THE GROUP AND PROVIDES AN OVERVIEW OF THE MAIN RISKS AND UNCERTAINTIES.

Jaano Vink	*Chairman of the Board*	6 April 2009
Sulev Luiga	*Member of the Board*	6 April 2009
Priit Tiru	*Member of the Board*	6 April 2009

MANAGEMENT OF THE GROUP

NORDECON INTERNATIONAL AS



JAANO VINK
Chairman of the Management Board, CEO

SULEV LUIGA
Member of the Management Board, CFO

PRIIT TIRU
Member of the Management Board, Head of Group Function Construction

NORDECON INFRA AS




ERKKI SUURORG
Chairman of the Management Board, CEO

PRIIT PLUUTUS
Member of the Management Board, Sales Director

TARVI MIILITS
Member of the Management Board, Civil Engineering Director

JAANUS TARO
Member of the Management Board, Road Construction Director

NORDECON EHITUS AS





PRIIT JAAGANT
Chairman of the Board

MARKO RAUDSIK
Member of the Management Board, Sales Director, South-Estonia

KAIDO SOMELAR
Member of the Management Board, Construction Director, South-Estonia

AVO AMBUR
Member of the Management Board, Sales Director, North-Estonia

RAUL OJALA
Member of the Management Board, Construction Director, North-Estonia

CONSOLIDATED FINANCIAL STATEMENTS

STATEMENT OF MANAGEMENT'S RESPONSIBILITY

The board of Nordecon International AS acknowledges its responsibility for the preparation of the Group's consolidated financial statements as at and for the year ended 31 December 2008 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;

- the consolidated financial statements, which have been prepared in accordance with effective financial reporting standards, give a true and fair view of the assets and liabilities of the Group comprising of the Parent company and other Group entities as well as its financial position, its financial performance, and its cash flows;

- all significant events that occurred before the date on which the consolidated financial statements were authorised for issue (6 April 2009) have been properly recognised and disclosed.

- Nordecon International AS and its subsidiaries are going concerns.

Jaano Vink	*Chairman of the Board*	6 April 2009
Sulev Luiga	*Member of the Board*	6 April 2009
Priit Tiru	*Member of the Board*	6 April 2009

CONSOLIDATED BALANCE SHEET

		EEK '000		EUR '000	
As at 31 December	*Note*	2008	2007	2008	2007
ASSETS					
Current assets					
Cash and cash equivalents	*7*	296,184	236,112	18,930	15,090
Trade receivables	*8*	473,935	511,819	30,290	32,711
Other receivables and prepayments	*8*	408,541	262,381	26,110	16,769
Income tax assets		3,207	2,170	205	139
Deferred tax assets	*9*	776	1,905	50	122
Inventories	*10*	386,733	393,529	24,717	25,151
Non-current assets held for sale	*11*	0	43,362	0	2,771
Total current assets		**1,569,376**	**1,451,278**	**100,301**	**92,754**
Non-current assets					
Long-term investments	*12*	112,605	111,686	7,197	7,138
Investment property	*13*	116,783	133,984	7,464	8,563
Property, plant and equipment	*14*	263,295	221,748	16,828	14,172
Intangible assets	*15*	305,188	273,223	19,505	17,462
Total non-current assets		**797,871**	**740,641**	**50,993**	**47,336**
TOTAL ASSETS		**2,367,247**	**2,191,918**	**151,295**	**140,089**
LIABILITIES					
Current liabilities					
Interest-bearing loans and borrowings	*16*	235,948	135,856	15,080	8,683
Trade payables		439,615	335,754	28,096	21,459
Other payables	*18*	423,270	574,722	27,052	36,731
Income tax payable		0	994	0	64
Other taxes payable	*18*	65,760	53,777	4,203	3,437
Provisions	*19*	11,600	12,458	741	796
Total current liabilities		**1,176,193**	**1,113,561**	**75,172**	**71,170**
Non-current liabilities					
Interest-bearing loans and borrowings	*16*	318,578	263,723	20,361	16,855
Other liabilities		2,534	714	162	46
Provisions	*19*	6,630	4,328	424	277
Total non-current liabilities		**327,742**	**268,765**	**20,947**	**17,177**
TOTAL LIABILITIES		**1,503,935**	**1,382,325**	**96,119**	**88,347**
EQUITY					
Share capital	*20*	307,567	307,567	19,657	19,657
Statutory capital reserve		34,800	11,766	2,224	752
Translation reserve		-4,106	2,354	-262	150
Retained earnings		426,995	397,810	27,290	25,425
Total equity attributable to equity holders of the parent		**765,256**	**719,497**	**48,909**	**45,984**
Minority interest		**98,056**	**90,095**	**6,267**	**5,758**
TOTAL EQUITY		**863,312**	**809,592**	**55,176**	**51,742**
TOTAL LIABILITIES AND EQUITY		**2,367,247**	**2,191,918**	**151,295**	**140,089**

CONSOLIDATED INCOME STATEMENT

		EEK '000		EUR '000	
	Note	2008	2007	2008	2007
Revenue	*22; 23*	3,867,917	3,752,028	247,205	239,798
Cost of sales	*25*	3,510,006	3,252,051	224,330	207,844
Gross profit		**357,911**	**499,977**	**22,875**	**31,954**
Distribution expenses		8,007	5,106	512	326
Administrative expenses	*26*	182,526	173,562	11,666	11,093
Other operating income	*27*	63,947	16,411	4,087	1,049
Other operating expenses	*27*	22,845	30,256	1,460	1,934
Operating profit		**208,480**	**307,464**	**13,324**	**19,651**
Finance income	*28*	96,877	31,486	6,192	2,012
Finance expenses	*28*	68,019	30,028	4,347	1,919
Net finance income		**28,858**	**1,458**	**1,844**	**93**
Share of profit of equity accounted investees		17	856	1	55
Share of loss of equity accounted investees		24,770	4,031	1,583	258
Net share of profit and loss of equity accounted investees	*12*	**-24,753**	**-3,175**	**-1,582**	**-203**
Profit before income tax		**212,585**	**305,747**	**13,587**	**19,541**
Income tax expense	*29*	41,269	15,976	2,638	1,021
Profit for the period		**171,316**	**289,771**	**10,949**	**18,520**
Attributable to:					
Equity holders of the parent		145,580	267,482	9,304	17,095
Minority interest		25,736	22,289	1,645	1,425
Basic earnings per share (in kroons and euros)	*21*	4.73	8.70	0.30	0.56
Diluted earnings per share (in kroons and euros)	*21*	4.73	8.70	0.30	0.56

CONSOLIDATED STATEMENT OF CASH FLOWS

		EEK '000		EUR '000	
	Note	2008	2007	2008	2007
Cash flows from operating activities					
Cash receipts from customers		4,693,418	4,424,893	299,964	282,802
Cash paid to suppliers		-3,809,442	-3,820,821	-243,468	-244,195
Cash paid to and for employees		-540,926	-438,363	-34,571	-28,017
Income taxes paid		-38,041	-18,423	-2,431	-1,177
Net cash from operating activities		**305,009**	**147,286**	**19,494**	**9,413**
Cash flows from investing activities					
Acquisition of property, plant and equipment		-11,856	-24,589	-758	-1,572
Acquisition of intangible assets	*15*	-929	-4,418	-59	-282
Proceeds from sale of property, plant and equipment and intangible assets		11,989	17,539	766	1,121
Acquisition of subsidiaries, net of cash acquired	*6*	-211,331	16,436	-13,507	1,050
Proceeds from disposal of subsidiaries		2,063	872	132	56
Acquisition of associates		-7,615	-10,000	-487	-639
Proceeds from disposal of associates		77,812	10,417	4,973	666
Loans granted		-120,756	-58,843	-7,718	-3,761
Repayment of loans granted		86,721	56,439	5,542	3,607
Interest received		17,079	12,295	1,092	786
Dividends received		183	0	12	0
Acquisition of other investments		0	-5,406	0	-346
Net cash from / used in investing activities		**-156,640**	**10,742**	**-10,011**	**687**
Cash flows from financing activities					
Proceeds from loans received		415,558	196,635	26,559	12,567
Repayment of loans received		-309,607	-134,995	-19,787	-8,628
Dividends paid		-104,130	-52,135	-6,655	-3,332
Payment of finance lease liabilities	*17*	-56,517	-64,729	-3,612	-4,137
Interest paid		-33,283	-22,672	-2,127	-1,449
Other payments made		-258	0	-16	0
Net cash used in financing activities		**-88,237**	**-77,896**	**-5,639**	**-4,978**
Net cash flow		**60,132**	**80,132**	**3,843**	**5,121**
Cash and cash equivalents at beginning of period		236,112	155,980	15,090	9,969
Effect of exchange rate fluctuations		-60	-98	-4	-6
Increase in cash and cash equivalents		60,132	80,132	3,843	5,121
Cash and cash equivalents at end of period		296,184	236,112	18,930	15,090

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

EEK '000	Share capital	Share premium	Statutory capital reserve	Translation reserve	Retained earnings	Total	Minority interest	Total
	Equity attributable to equity holders of the parent							
Balance at 31 December 2006	**153,784**	**108,465**	**4,158**	**2,196**	**196,326**	**464,929**	**39,291**	**504,220**
Foreign exchange differences	0	0	0	158	0	158	1,476	1,634
Profit for the period	0	0	0	0	267,482	267,482	22,289	289,771
Total recognised income and expense for the period	**0**	**0**	**0**	**158**	**267,482**	**267,640**	**23,765**	**291,405**
Dividend declared	0	0	0	0	-46,135	-46,135	-6,000	-52,135
Issue of share capital	153,783	-108,465	0	0	-45,318	0	0	0
Transfer to capital reserve	0	0	7,608	0	-7,608	0	0	0
Increase/decrease in minority interest	0	0	0	0	33,063	33,063	33,039	66,102
Balance at 31 December 2007	**307,567**	**0**	**11,766**	**2,354**	**397,810**	**719,497**	**90,095**	**809,592**
Foreign exchange differences	0	0	0	-6,460	0	-6,460	89	-6,371
Profit for the period	0	0	0	0	145,580	145,580	25,736	171,316
Total recognised income and expense for the period	**0**	**0**	**0**	**-6,460**	**145,580**	**139,120**	**25,825**	**164,945**
Dividend declared	0	0	0	0	-92,270	-92,270	-11,860	-104,130
Transfer to capital reserve	0	0	23,034	0	-23,034	0	0	0
Increase/decrease in minority interest	0	0	0	0	-1,091	-1,091	-6,004	-7,095
Balance at 31 December 2008	**307,567**	**0**	**34,800**	**-4,106**	**426,995**	**765,256**	**98,056**	**863,312**

EUR '000	Share capital	Share premium	Statutory capital reserve	Translation reserve	Retained earnings	Total	Minority interest	Total
	Equity attributable to equity holders of the parent							
Balance at 31 December 2006	**9,829**	**6,932**	**266**	**140**	**12,548**	**29,714**	**2,511**	**32,226**
Foreign exchange differences	0	0	0	10	0	10	94	104
Profit for the period	0	0	0	0	17,095	17,095	1,425	18,520
Total recognised income and expense for the period	0	**0**	**0**	**10**	**17,095**	17,105	**1,519**	**18,624**
Dividend declared	0	0	0	0	-2,949	-2,949	-383	-3,332
Issue of share capital	9,829	-6,932	0	0	-2,896	0	0	0
Transfer to capital reserve	0	0	486	0	-486	0	0	0
Increase/decrease in minority interest	0	0	0	0	2,113	2,113	2,112	4,225
Balance at 31 December 2007	**19,657**	**0**	**752**	**150**	**25,425**	**45,984**	**5,758**	**51,742**
Foreign exchange differences	0	0	0	-413	0	-413	6	-407
Profit for the period	0	0	0	0	9,304	9,304	1,645	10,949
Total recognised income and expense for the period	**0**	**0**	**0**	**-413**	**9,304**	**8,891**	**1,651**	**10,542**
Dividend declared	0	0	0	0	-5,897	-5,897	-758	-6,655
Transfer to capital reserve	0	0	1,472	0	-1,472	0	0	0
Increase/decrease in minority interest	0	0	0	0	-70	-70	-384	-454
Balance at 31 December 2008	**19,657**	**0**	**2,224**	**-262**	**27,290**	**48,909**	**6,267**	**55,176**

NOTE 1. REPORTING ENTITY

Nordecon International AS (formerly Eesti Ehitus AS) is a company domiciled in Estonia. The address of the Company's registered office is Pärnu mnt 158/1, Tallinn 11317, Estonia. The Company's controlling shareholder is AS Nordic Contractors which holds 61.15 per cent of the shares in Nordecon International AS. The shares of Nordecon International AS have been listed on the NASDAQ OMX Tallinn Stock Exchange since 18 May 2006.

The business name of Eesti Ehitus AS was changed by an extraordinary general meeting of the Company's shareholders on 26 March 2009. The extraordinary general meeting decided that the Company's new business name should be Nordecon International AS. These consolidated financial statements have been prepared under the new business name (referring, where necessary due to legal or other circumstances, to the former business name) because the Company's board authorised the consolidated financial statements for issue after the date on which the name was changed.

The consolidated financial statements of Nordecon International AS (the "Company" or the "Parent") as at and for the year ended 31 December 2008 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interests in associates and jointly controlled entities. The Group's primary activities are residential and commercial construction, civil engineering and road construction and maintenance. In addition to Estonia, Group entities operate in Latvia, Lithuania and Ukraine.

NOTE 2. STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION

STATEMENT OF COMPLIANCE

The consolidated financial statements of Nordecon International AS as at and for the year ended 31 December 2008 have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union.

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

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

These consolidated financial statements have been prepared and submitted for approval in conformity with the provisions of the Estonian Accounting Act and the Estonian Commercial Code.

These consolidated financial statements were authorised for issue by the board on 6 April 2009.

BASIS OF MEASUREMENT

The consolidated annual financial statements have been prepared on the historical cost basis except that investment properties have been measured at fair value.

The methods used to measure fair values are discussed further in notes 4 and 5.

FUNCTIONAL AND PRESENTATION CURRENCY

The functional currency of Group entities is the currency of the primary economic environment in which they operate: for Estonian entities - the Estonian kroon (EEK), for Latvian entities - the Latvian lats (LVL), for Lithuanian entities - the Lithuanian litas (LTL) and for Ukrainian entities - the Ukrainian hryvna (UAH). The consolidated financial statements are presented in Estonian kroons. All financial information is presented in thousands of currency units, rounded to the nearest thousand unless indicated otherwise.

In accordance with the rules of the NASDAQ OMX Tallinn Stock Exchange, the primary financial statements and the notes to the financial statements are also presented in euros. The Estonian kroon is pegged to the euro at a fixed exchange rate (1 euro = 15.6466 Eesti kroons). Therefore, the translation of the consolidated financial statements from Estonian kroons to euros does not give rise to foreign exchange differences.

USE OF ESTIMATES AND JUDGEMENTS

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

The ongoing global financial crisis that emerged in 2007 has drained liquidity in the economy, making it increasingly difficult to raise funds in the capital markets. Moreover, in the Group's target markets the slump has spread to the real economy with all the ensuing consequences that have exerted and may continue to exert an adverse impact on the Group's operations. In preparing these financial statements, management relied on its assessment of how the economic environment of the target markets may impact the Group's financial performance and financial position.

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

CRITICAL JUDGEMENTS THAT HAVE THE MOST SIGNIFICANT EFFECT ON THE INFORMATION PRESENTED IN THE FINANCIAL STATEMENTS CONCERN THE FOLLOWING ACCOUNTING AREAS:

Recognition of construction contract revenue by reference to the stage of completion method (note 24)

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 balance sheet date. The Group estimates the stage of completion of its construction contracts using precise and systematic cost accounting, forecasting, and revenue and expense recognition procedures. The estimated outcome of each construction contract is subject to ongoing control. The Group analyses any deviations from the budget and revises its estimate of the outcome whenever necessary.

The effect of a change in the estimate of contract revenue or contract costs, or the effect of a change in the estimate of the outcome of a contract is accounted for as a change in accounting estimates. The revised estimates are used to determine the amount of revenue and expenses recognised in the income statement in the period in which the change is made and in subsequent periods.

Determination of the net realisable value of inventories

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

The Group is engaged in real estate development in Estonia and apartments that are built for sale are classified as inventories until that sale occurs. By the end of 2008, demand in the Estonian real estate market had decreased significantly and, therefore, the sales prices of apartments had fallen. As a result, the Group's management had to estimate the net realisable values of its inventories.

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

Properties are classified both on initial recognition and subsequent reclassification on the basis of management's intentions regarding their further use. Investment properties comprise properties held to earn operating lease rentals or for capital appreciation and properties held over an extensive term for a currently undetermined future use.

Investment properties are measured to fair value using three methods: the discounted cash flow analysis, the sales comparison method and the existence of a contract under the law of obligations at the balance sheet date.

Management decided to remeasure the fair values of all investment properties whose fair value could be determined at the balance sheet date using the discounted cash flow method or a sales contract. The Group has determined the fair value of investment properties by reference to the reports of qualified independent real estate appraisers.

Provisions and contingent liabilities (notes 19 and 31)

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

The Group establishes provisions for warranty expenses. Warranty expenses are the costs which may be incurred after the completion of construction activity in connection with warranties given. The amount of the warranty liability of a project is determined by reference to an expert opinion based on the weighting of all possible outcomes against their probabilities on the completion of construction activity. Warranty expenses are recognised as the costs of construction contracts and they are established short- and long-term provisions.

Determination of the useful lives of property, plant and equipment (note 14)

Management estimates the useful life of an item of property, plant and equipment by reference to the expected use of the asset (its expected capacity or output), historical experience with similar items, and future plans. According to management's assessment, the useful life of buildings and structures is 33 years and the useful life of items of plant and equipment is 3 to 10 years depending on their construction and purpose of use. The average useful life of vehicles is 5 to 7 years and the useful life of other equipment and fixtures is 3 to 5 years. The useful lives of used items are estimated taking into account their technical or commercial obsolescence and physical wear and tear.

Measurement of goodwill (note 15)

The Group assesses whether the carrying amount of goodwill acquired on the acquisition of subsidiaries, associates and jointly controlled entities may have declined below its recoverable amount at least annually. This is done by comparing the carrying amount of the cash-generating unit to which goodwill has been allocated with the fair value (less costs to sell) or value in use of the cash-generating unit. Value in use is identified by estimating the future net cash flow to be derived from the cash-generating unit and by applying an appropriate discount rate so as to determine the present value of that future cash flow. A cash-generating unit is the subsidiary, associate or joint venture on whose acquisition the goodwill was acquired. The value in use of the unit is determined by making detailed projections of the unit's net cash flows for the next three years, assuming that this is a period for which reliable projections can be made. Management makes the estimates on the assumption that at the end of the forecast period the cash-generating unit will be able to sustain its operations so that the value for the terminal year can be estimated on a going concern basis.

The projected cash flows, which include both working capital investments and capital expenditures, are discounted at the weighted average cost of the capital involved (debt and equity capital). Depending on the structure of the debt and equity capital, the discount rates applied in determining the value in use of the subsidiaries range from 8 per cent to 14 per cent.

The value in use of a subsidiary, associate or joint venture 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. Management has performed a sensitivity analysis that indicates the impact of a change in discount rates on the recoverable amount of goodwill. The total value in use of the cash-generating units to which goodwill has been allocated will exceed the carrying amount of the investments and goodwill until the rise in the discount rate does not exceed 5 per cent.

NOTE 3. CHANGES IN ACCOUNTING POLICIES AND PRESENTATION PRACTICE

CHANGES IN PRESENTATION PRACTICE

In the balance sheet, current assets consisting of prepaid corporate income tax have been presented separately from other assets as required by IAS 1 Presentation of Financial Statements. Comparative prior period information has been adjusted accordingly:

	EEK '000			*EUR '000*		
	2007	Restated 2007	Change	2007	Restated 2007	Change
Income tax assets	0	2,170	+2,170	0	139	+139
Other receivables and prepayments	264,551	262,381	-2,170	16,908	16,769	-139

In the income statement, distribution expenses have been separated from administrative expenses and other operating expenses. Comparative prior period data has been adjusted accordingly:

	EEK '000			EUR '000		
	2007	Restated 2007	Change	2007	Restated 2007	Change
Distribution expenses	0	5,106	5,106	0	326	326
Administrative expenses	176,273	173,562	-2,711	11,266	11,093	-173
Other operating expenses	32,651	30,256	-2,395	2,087	1,934	-153

NEW AND REVISED STANDARDS AND INTERPRETATIONS AS AT 31 DECEMBER 2008

The following new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2008, and have not been applied in preparing these consolidated financial statements:

Amendment to IFRS 2 Share-based Payment (effective for annual periods beginning on or after 1 January 2009)

The amendments to IFRS 2 will have no impact on the Group's financial statements as the Group does not have any share-based compensation plans.

Revised IFRS 3 Business Combinations (effective for annual periods beginning on or after 1 July 2009)

The scope of the revised Standard has been amended and the definition of a business has been expanded. The revised Standard also includes a number of other potentially significant changes including:

- All items of consideration transferred by the acquirer are recognised and measured at fair value as of the acquisition date, including contingent consideration.
- Subsequent change in contingent consideration will be recognised in profit or loss.
- Transaction costs, other than share and debt issuance costs, will be expensed as incurred.

The acquirer can elect to measure any non-controlling interest at fair value at the acquisition date (full goodwill), or at its proportionate interest in the fair value of the identifiable assets and liabilities of the acquiree, on a transaction-by-transaction basis.

As the revised Standard should not be applied to business combinations prior to the date of adoption, the revised Standard is expected to have no impact on the financial statements with respect to business combinations that occur before the date of adoption of the revised Standard.

IFRS 8 Operating Segments (effective for annual periods beginning on or after 1 January 2009)

The Standard introduces the "management approach" to segment reporting and requires segment disclosure based on the components of the entity that management monitors in making decisions about operating matters. Operating segments are components of an entity about which separate financial information is available that is evaluated regularly by the Group's management in deciding how to allocate resources and in assessing performance.

The Standard will have no effect on the profit or loss or equity. However, the Group expects the new Standard to significantly alter the presentation and disclosure of its operating segments in the consolidated financial statements.

Revised IAS 1 Presentation of Financial Statements (effective for annual periods beginning on or after 1 January 2009)

The revised Standard requires information in financial statements to be aggregated on the basis of shared characteristics and introduces a statement of comprehensive income. Items of income and expense and components of other comprehensive income may be presented either in a single statement of comprehensive income (effectively combining the income statement and all non-owner changes in equity in a single statement), or in two separate statements (a separate income statement followed by a statement of comprehensive income).

The Group is currently evaluating whether to present a single statement of comprehensive income, or two separate statements.

Revised IAS 23 Borrowing Costs (effective for annual periods beginning on or after 1 January 2009)

The revised Standard removes the option to expense borrowing costs and requires the capitalisation of borrowing costs that relate to qualifying assets (those that take a substantial period of time to get ready for use or sale).

The Group has not yet completed its analysis of the impact of the revised Standard (the extent to which borrowing costs may be capitalised in subsequent periods).

Amendments to IAS 27, Consolidated and Separate Financial Statements (effective for annual periods beginning on or after 1 January 2009)

The amendments remove the definition of "cost method" currently set out in IAS 27, and instead require all dividends from a subsidiary, jointly controlled entity or associate to be recognised as income in the separate financial statements of the investor when the right to receive the dividend is established.

In addition, the amendments provide guidance when the receipt of dividend income is deemed to be an indicator of impairment.

Amendments to IAS 27 are not relevant as these are the consolidated financial statements of the Group.

Revised IAS 27 Consolidated and Separate Financial Statements (effective for annual periods beginning on or after 1 July 2009)

In the revised Standard the term minority interest has been replaced by non-controlling interest, and is defined as "the equity in a subsidiary not attributable, directly or indirectly, to a parent". The revised Standard also amends the accounting for non-controlling interest, the loss of control of a subsidiary, and the allocation of profit or loss and other comprehensive income between the controlling and non-controlling interest.

The Group has not yet completed its analysis of the impact of the revised Standard.

Amendments to IAS 32 Financial Instruments: Presentation, and IAS 1 Presentation of Financial Statements (effective for annual periods beginning on or after 1 January 2009)

The amendments introduce an exemption to the principle otherwise applied in IAS 32 for the classification of instruments as equity; the amendments allow certain puttable instruments issued by an entity that would normally be classified as liabilities to be classified as equity if, and only if, they meet certain conditions.

The amendments are not relevant to the Group's financial statements as none of the Group entities have in the past issued puttable instruments that would be affected by the amendments.

Amendment to IAS 39, Financial Instruments: Recognition and Measurement (effective for annual periods beginning on or after 1 July 2009)

The amended Standard clarifies the application of existing principles that determine whether specific risks or portions of cash flows are eligible for designation in a hedging relationship. In designating a hedging relationship the risks or portions must be separately identifiable and reliably measurable; however inflation cannot be designated, except in limited circumstances.

The amendments to IAS 39 will not impact the Group's financial statements as the Group does not apply hedge accounting.

IFRIC 13 Customer Loyalty Programmes (effective for annual periods beginning on or after 1 July 2008)

The Group does not expect the Interpretation to have any impact on the consolidated financial statements because the Group does not use customer loyalty programmes.

IFRIC 15 Agreements for the Construction of Real Estate (effective for annual periods beginning on or after 1 January 2009)

IFRIC 15 clarifies that revenue arising from agreements for the construction of real estate is recognised by reference to the stage of completion of the contract activity in the following cases:

- the agreement meets the definition of a construction contract in accordance with IAS 11.3;
- the agreement is only for the rendering of services in accordance with IAS 18 (e.g. the entity is not required to supply construction materials); and
- the agreement is for the sale of goods but the revenue recognition criteria of IAS 18.14 are met continuously as construction progresses.

In all other cases, revenue is recognised when all of the revenue recognition criteria of IAS 18.14 are satisfied (e.g. upon completion of construction or upon delivery).

The Group has not yet completed its analysis of the impact of the new Interpretation as this must be assessed on a contract by contract basis.

IFRIC 16 Hedges of a Net Investment in a Foreign Operation (effective for annual periods beginning on or after 1 October 2008)

IFRIC 16 will have no impact on the Group's financial statements as the Group has not designated any hedges of a net investment in a foreign operation.

IFRIC 17 Distributions of Non-cash Assets to Owners (effective prospectively for annual periods beginning on or after 15 July 2009)

As the Interpretation is applicable only from the date of application, it will not impact on the financial statements for periods prior to the date of adoption of the interpretation. Further, since it relates to future dividends that will be at the discretion of the board of directors/shareholders, it is not possible to determine the effects of application in advance.

NOTE 4. SIGNIFICANT ACCOUNTING POLICIES

BASIS OF CONSOLIDATION

Subsidiaries

Subsidiaries are entities controlled by the Parent company. Control exists when the Parent company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account. Control is presumed to exist when the Parent owns, directly or indirectly through subsidiaries, more than half of the voting power of an entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Business combinations of independent entities

Business combinations between independent parties are accounted for by applying the purchase method whereby the cost of a business combination is allocated by recognising the acquiree's identifiable assets, liabilities and contingent liabilities (the "net assets") at their fair values at the acquisition date. Any difference between the cost of the business combination and the acquirer's interest in the fair value of the net assets so recognised is accounted for as goodwill. The acquiree's income and expenses are included in the Group's income statement and the goodwill acquired from the business combination is recognised in the Group's balance sheet 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 in anticipation of future economic benefits from assets that are not capable of being individually identified and separately recognised. Positive goodwill is allocated to a cash-generating unit or a group of cash-generating units and it is not amortised. Instead, it is tested for impairment at each balance sheet date. Subsequent to initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Negative goodwill is the excess of the acquirer's interest in the fair value of the net assets acquired over the cost of the business combination. Negative goodwill is immediately recognised in revenue.

Business combinations of entities under common control

Business combinations involving entities under common control are business combinations in which all of the combining entities are ultimately controlled by the same party or parties. Such business combinations are not accounted for in the same way as business combinations of independent entities. Business combinations of entities under common control are accounted for by recognising the assets, liabilities and contingent liabilities acquired in the acquirer's balance sheet at their pre-acquisition carrying amounts. The amount paid in excess of or below the carrying amount of the net assets acquired is recognised directly in equity. As a result, business combinations of entities under common control do not give rise to positive or negative goodwill. The acquiree's equity items are added to the acquirer's equity items except for the acquiree's share capital that is recognised as share premium. If the balance of positive share premium is not sufficient for making the required adjustment, the remainder is recognised as a reduction of retained earnings.

Associates and joint ventures

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

A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control.

Investments in associates and joint ventures are accounted for using the equity method (equity accounted investees) and are initially recognised at cost. The Group's investment includes goodwill identified on acquisition, net of any accumulated 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 the 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 losses exceeds its interest in an equity accounted investee, the carrying amount of that interest is reduced to nil and the recognition of future losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

Jointly controlled operations

In accordance with IAS 31 *Interests in Joint Ventures*, jointly controlled operations are joint ventures which involve the use of the assets and other resources of the venturers rather than the establishment of a corporation, partnership or other entity, or a financial structure that is separate from the venturers themselves. Each venturer uses its own property, plant and equipment and carries its own inventories. It also incurs its own expenses and liabilities and raises its own finance, which represents its own obligations. In respect of its interests in jointly controlled operations, a venturer recognises in its financial statements the assets that it controls and the liabilities that it incurs, and the expenses that it incurs and its share of the income that it earns from the sale of goods or services by the joint venture.

Transactions eliminated on consolidation

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

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

Consolidation of foreign operations

The functional currency of foreign operations is the official currency of their primary economic environment. The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to Estonian kroons at exchange rates at the reporting date. The income and expenses of foreign operations are translated to Estonian kroons at exchange rates at the dates of the transactions. Exchange differences on translating foreign operations are recognised directly in equity in the foreign currency translation reserve. When a foreign operation is disposed of, in part or in full, the relevant amount in the foreign currency translation reserve is transferred to profit or loss.

The exchange rates of the euro against the Estonian kroon and the functional currencies of the Group's foreign operations as at the balance sheet date:

	Date	Estonian kroon (EEK)	Latvian lats (LVL)	Lithuanian litas (LTL)	Ukrainian hryvna (UAH)
1euro (EUR)	31 December 2008	15.6466	0.7081	3.4528	11.1288
1euro (EUR)	31 December 2007	15.6466	0.6969	3.4528	7.4275

FOREIGN CURRENCY TRANSACTIONS

Transactions in foreign currencies are translated to the functional currency using the Eesti Pank (Bank of Estonia) exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. Foreign currency differences arising on translation and retranslation are recognised in profit or loss in the period in which they arise.

Foreign exchange differences on trade receivables and trade payables are recognised in other operating income and other operating expenses. Foreign exchange differences on receivables and payables related to financing and investing activities are recognised on finance income and finance expenses.

FINANCIAL ASSETS

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

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

A financial asset is derecognised when the Group transfers the contractual rights to receive the cash flows of the financial asset or the rights to the cash flows expire or the Group assumes an obligation to pay the cash flows to one or more entities to whom most of the risks and rewards of ownership of the financial asset are transferred.

Upon initial recognition, financial assets are classified into categories (see below). At the end of each reporting year, financial assets are reviewed to determine whether they are carried in the right category and, when necessary, an item is reclassified. Financial assets that cannot be reclassified under International Financial Reporting Standards are not reclassified. Financial assets are classified into the following categories:

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

Financial assets at fair value through profit or loss

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

A financial asset at fair value through profit or loss is measured at its fair value at each balance sheet date without any deduction for the transaction costs that may be incurred on their sale or other disposal. A gain or loss on a change in fair value is recognised in the income statement in finance income or in finance expenses respectively. The fair value of a listed security is determined based on its quoted bid price at the close of business on the balance sheet date and the official exchange rate of Eesti Pank (Bank of Estonia) at that date. The fair value of an unlisted security is established by using available information and valuation techniques, which may include reference to the current fair value of another instrument which is substantially the same and / or discounted cash flow analysis.

A gain or loss on the disposal of a financial asset through profit or loss as well as any interest and dividend income on the financial asset is recognised in the income statement in finance income and finance expenses as appropriate.

Held-to-maturity investments

Subsequent to initial recognition, any held-to-maturity investments that the Group has the positive intention and ability to hold to maturity are measured at their amortised cost using the effective interest rate method. The value of held-to-maturity investments is adjusted for any impairment losses incurred.

Loans and receivables

Subsequent to initial recognition, loans and receivables that are not acquired for resale are measured at their amortised cost using the effective interest rate method.

Interest income on loans and receivables is recognised in the income statement in finance income.

Available-for-sale financial assets

Available-for-sale financial assets are financial assets that are not cash and cash equivalents and have not been designated to any other category of financial assets. 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 directly in the fair value reserve in equity until the asset is derecognised or becomes impaired at which time the cumulative gain or loss previously recognised in equity is recognised in profit or loss. When an available-for-sale financial asset becomes impaired, the amount of the cumulative gain or loss that is removed from equity and recognised in profit or loss is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that financial asset previously recognised in profit or loss.

A financial asset carried at cost is written down to its recoverable amount when the latter has decreased below the asset's carrying amount. The recoverable amount of a financial asset carried at cost is the present value of its estimated future cash flows discounted at the average rate of return prevailing in the market of similar financial assets. Impairment losses on financial assets carried at cost are recognised in the income statement in finance expenses. Such impairment losses are not reversed.

Cash and cash equivalents

Cash and cash equivalents comprise cash and short-term highly liquid investments that are readily convertible to known amounts of cash within up to three months and which are subject to an insignificant risk of changes in value. Cash and cash equivalents include cash on hand, demand deposits, term deposits with a maturity of up to three months and units in money market funds.

The consolidated statement of cash flows is prepared using the direct method.

INVENTORIES

Materials and goods purchased for resale are initially recognised at cost. The cost of materials and goods purchased for resale comprises all costs of purchase and other costs incurred in bringing the inventories to their present location and condition.

Finished goods and work in progress are initially recognised at their cost of conversion. The cost of conversion of inventories comprises all direct and indirect production costs incurred in bringing the inventories to their present location and condition.

The costs incurred in connection with real estate development are recognised in inventories. Depending on the stage of completion of the project, the costs are recognised either in work in progress or finished goods. Building materials acquired for construction contracts are recognised in the balance sheet in raw and other materials.

The cost of inventories is assigned using the weighted average cost formula. Exceptions include registered immovable properties (plots recognised in goods purchased for resale) and apartments, which in legal terms constitute movable property (recognised in finished goods). Their cost is calculated and assigned using specific identification of their individual costs.

In the balance sheet, 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. Impairment losses on inventories, i.e. inventory write-downs to net realisable value are recognised in the income statement in the cost of sales.

CONSTRUCTION WORK IN PROGRESS

The revenues and costs of a construction contract are matched and recognised by reference to the stage of completion of the contract activity at the balance sheet date. The stage of completion of a contract is determined as the proportion that contract costs incurred for work performed until the balance sheet date 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 and can be allocated to the contract.

If at the balance sheet date progress billings exceed the revenue recognised in the income statement by reference to the stage of completion method, the difference is recognised in the balance sheet as a liability. If the revenue recognised in the income statement by reference to the stage of completion method exceeds progress billings, the difference is recognised in the balance sheet as an asset.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately and a corresponding provision is established. When the outcome of a construction contract cannot be estimated reliably, revenue is recognised only to the extent of contract costs incurred.

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 operating activities of a Group entity. In addition, investment property includes properties held for an extensive term for a currently undetermined use. Land and buildings acquired for residential construction purposes are recognised as inventories. Properties that are being constructed or developed for future use as investment property (commercial buildings under construction) are recognised as items of property, plant and equipment until their construction or development is complete.

Investment property is recognised initially at its cost. Directly attributable transaction costs, such as notaries' fees, stamp duties, professional fees for advisory services, and other essential costs incurred to perform the transaction are included in the initial measurement. After initial recognition, investment property is measured at fair value at each balance sheet date. The fair value of investment property is based on market conditions at the balance sheet date.

The fair value of investment property is determined by reference to the expert opinions of qualified appraisers.

Gains and losses from changes in value are recognised in the income statement in other operating income and other operating expenses respectively.

An investment property is derecognised on disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from it. Gains and losses arising from the retirement or disposal of investment property are recognised in the income statement in the period of the retirement or disposal.

When there is a change in use, investment property is reclassified. The property is accounted for, from the date of transfer, in accordance with the policies applicable to the group of assets to which the property was transferred. If a property that used to be accounted for as investment property is transferred to inventories or property, plant and equipment, the property's deemed cost for subsequent accounting is its fair value at the date of reclassification.

If a property is transferred from property, plant and equipment to investment property, any positive difference at that date between the property's fair value and carrying amount is recognised in the revaluation reserve in equity and it will be subject to the revaluation accounting principles provided in IAS 16 *Property, Plant and Equipment*. Any negative difference is recognised in the income statement in depreciation expense. Exceptions include assets under construction. When the latter are transferred to investment property, any difference (both positive and negative) between their fair value and carrying amount is recognised in the income statement. When a property is transferred from inventories to investment property, any difference (both positive and negative) at that date between its fair value and carrying amount is recognised in the income statement.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are tangible items 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 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 as separate items of property, plant and equipment and are assigned depreciation rates that correspond to their useful lives.

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

Buildings and structures	33 years
Plant and equipment	3-10 years
Vehicles	5-7 years
Other equipment, fixtures and fittings	3-5 years

Items of property, plant and equipment are depreciated until their residual value rises above their carrying amount. 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 may be impaired when there is any indication that the recoverable amount of the item has decreased below its carrying amount. Further information on assessing impairment is presented in the policy Impairment of assets.

The carrying amount of an item of property, plant and equipment is derecognised when the item is disposed of or when no future economic benefits are expected from its use or disposal. Any gain or loss arising from derecognition of an item of property, plant and equipment is included in other operating income or other operating expenses in the income statement of the period in which the item is derecognised.

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

GOODWILL

Goodwill acquired in a business combination is initially measured at its cost. Goodwill is the positive difference between the cost of the business combination and the Group's interest in the fair value of the net assets acquired in the subsidiary, associate or joint venture at the date of acquisition. Net assets acquired represent the difference between the fair value of the identifiable liabilities and contingent liabilities acquired and the fair value of the identifiable assets acquired.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill is allocated to the Group's cash-generating units or groups of cash-generating units that are expected to benefit from the synergies of the combination. Each unit or group of units to which goodwill is allocated is the smallest differentiable group of assets that may not be larger than a primary segment for segment reporting purposes.

Goodwill is tested for impairment at least at each financial year-end and whenever events or changes in estimates indicate that the carrying amount of goodwill may be impaired. Impairment is determined by estimating the recoverable amount of the cash-generating unit to which goodwill has been allocated. Impairment losses on goodwill are recognised in administrative expenses in the income statement.

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

RESEARCH AND DEVELOPMENT EXPENDITURES

Research expenditures include expenditures incurred in original and planned investigation undertaken with the prospect of gaining new scientific or technical knowledge and understanding. 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 to plan or design or test for the production of new products, processes, systems or services. 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 expensed on a straight-line basis over its estimated useful life that does not exceed five years.

OTHER INTANGIBLE ASSETS

An acquired intangible asset is measured initially at cost. After initial recognition, an intangible asset is carried at its 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 otherwise indicated in these accounting policies.

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

Licences, patents	3-5 years
Trademarks	5 years

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 in estimates 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 their carrying amount 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 the income statement where they are classified according to the category of the asset.

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

IMPAIRMENT OF ASSETS

At each reporting date the Group assesses whether there is any indication that an asset may be impaired. The Group estimates the recoverable amounts of its assets whenever necessary or at least once a year (if so required by IFRSs).

Impairment of property, plant and equipment and intangible assets

If the carrying amount of an asset exceeds its recoverable amount, the asset or the cash-generating unit to which the asset belongs is written down to its recoverable amount. The recoverable amount of an asset or its cash-generating unit is the higher of its fair value less costs to sell and the present value of the future cash flows expected to be derived from the asset or cash-generating unit (value in use). Value is use is calculated by estimating the future cash flows expected to be derived from the asset and applying an appropriate pre-tax discount rate to those cash flows. The discount rate has to reflect current market conditions and the risks specific to the asset. Where necessary, the fair value of an asset is determined with the assistance of independent experts. Impairment losses on assets including impairment losses on cash-generating units are recognised in the income statement in depreciation and amortisation expense.

An impairment loss for a cash-generating unit is recognised by first reducing the carrying amount of any goodwill allocated to the cash-generating unit and then the carrying amounts of other assets of the unit on a pro rata basis.

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 recognised in prior periods 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 for the asset in prior years. A reversal of an impairment loss is recognised in the income statement as a reduction of the expense in which the original impairment loss was recognised. As an exception, impairment losses for goodwill are not reversed.

Impairment of financial assets

If there is objective evidence that a financial asset measured at amortised cost is impaired, i.e. that the carrying amount of the instrument exceeds its recoverable amount, the instrument is written down by the difference between its carrying amount and recoverable amount. The recoverable amount of such an instrument is the present value of its estimated future cash flows discounted at the instrument's original effective interest rate. Impairment losses on financial assets related to operating activity are recognised in operating expenses and impairment losses on financial assets related to investing activities are recognised in finance expenses.

Loans and receivables that are individually significant are assessed for impairment individually. If a receivable is 180 or more days overdue, it is considered impaired and expensed in full. If impairment of an asset becomes obvious sooner, the asset is written down earlier.

When a receivable for which an impairment loss has been recognised is recovered or an event occurs that reverses the impairment, the reversal is recognised in the income statement by reducing the expense in which the impairment loss was originally recognised.

FINANCIAL LIABILITIES

All financial liabilities (trade and other payables, loans, accrued expenses, debt securities issued and other short- and long-term borrowings) are recognised initially at their fair value. The fair value of a financial liability includes any transaction costs that are directly attributable to the acquisition or issue of the financial liability. After initial recognition, financial liabilities are measured at amortised cost (except for financial liabilities acquired for resale that are measured at their fair value).

As a rule, the amortised cost of a current financial liability is effectively the same as its nominal value. Therefore, current financial liabilities are carried at the amount payable. Non-current financial liabilities are initially recognised at the fair value of the consideration received for them (less any transaction charges). Subsequent to initial recognition, non-current financial liabilities are measured at amortised cost using the effective interest rate method. Interest expense on financial liabilities is recognised on an accrual basis in finance expenses.

A financial liability is classified as current when it is due to be settled within twelve months after the balance sheet date or when the Group does not have an unconditional right to defer settlement of the liability for at least twelve months after the balance sheet date. Loan liabilities that are to be settled within twelve months after the balance sheet date but which are refinanced on a long-term basis between the balance sheet 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 balance sheet date due to breach of the loan agreement.

PROVISIONS AND CONTINGENT LIABILITIES

A provision is recognised in the balance sheet 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 obligations are recognised at their present value by applying a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the liability.

A warranty provision is established when the service has been delivered and the obligation has been created under a construction contract. The amount recognised as a provision is estimated by reference to historical experience of the expenditure required to settle warranties obligations. Warranties provisions are reviewed at least annually.

Provisions for restoring associates' negative equity are established when the Group has a legal obligation or a binding commitment under an agreement with other investors to create such a provision.

Promises, guarantees and other commitments that may transform into an obligation subject to the occurrence of certain future events (which have not yet occurred) are disclosed in the notes to the financial statements as contingent liabilities.

Contingent liabilities include present obligations incurred as a result of past events which according to management's estimates will not require settlement and / or which cannot be measured reliably.

SHORT-TERM EMPLOYEE BENEFITS

Short-term employee benefits (wages, salaries, vacation pay liabilities and bonuses payable within twelve months after the rendering of the service) are measured on an undiscounted basis and are expensed as the related service is provided. Salary, wage and vacation pay liabilities are recognised on the basis of contracts signed with employees in accordance with the provisions of labour legislation that impose on the Group the obligation to make the payments. Bonuses granted and payable on a current basis are recognised on the basis of decisions adopted by the board, assuming that their disbursement is probable and the amount can be measured reliably.

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

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

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

LEASES

A lease that transfers substantially all the risks and rewards incidental to ownership to the lessee is classified as a finance lease. An operating lease is a lease other than a finance lease.

The Group recognises finance leases concluded for the acquisition of assets at the commencement of the lease as assets and liabilities at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments, each determined at the inception of the lease. Assets acquired with finance lease are depreciated similarly to owned assets. Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

The Group recognises assets leased out under a finance lease in its balance sheet and presents them as receivables at an amount equal to the net investment in the lease. Lease payments are applied against the gross investment in the lease to reduce the principal and the unearned finance income. Finance income is allocated over the lease term based on a pattern reflecting a constant periodic rate of return on the net investment in the lease.

In the case of operating leases, the leased assets are carried in the balance sheet of the lessor. Operating lease payments received and made are recognised in income and expense respectively on a straight-line basis.

STATUTORY CAPITAL RESERVE

In accordance with the Commercial Code, the statutory capital reserve has to amount to at least 10 per cent of the Company's share capital. Accordingly, every year the Company transfers at least 5 per cent of its net profit to the statutory capital reserve until the prescribed level is attained. The statutory capital reserve may not be distributed as dividends but it may be used for covering accumulated losses if the latter cannot be covered with unrestricted equity. In addition, the capital reserve may be used for increasing share capital by means of a bonus issue. The Group's capital reserve comprises the subsidiaries' capital reserves.

EARNINGS PER SHARE

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

INCOME TAX

Income tax assets and liabilities and income tax expense and income comprise current and deferred items. Current tax (recoverable or payable) in respect of taxable profit or the distribution of dividends is recognised as a current asset or liability, and deferred tax is recognised as a non-current asset or liability unless its realisation is probable in the next reporting period.

Parent company and subsidiaries and joint ventures registered in Estonia

Under the Estonian Income Tax Act, corporate income tax is not levied on profits earned but dividends distributed. Until 31 December 2008 the tax rate for (net) dividend distributions was 21/79. The tax rate will remain the same in 2009. According to the Income Tax Act, the tax rate decreases at the rate of 1 percentage point per year until it reaches 18/82 which will be applicable to dividends distributed after 1 January 2012. The income tax payable on dividends is recognised as an expense in the period in which the dividends are declared (when the distribution obligation arises).

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

Latvian, Lithuanian and Ukrainian subsidiaries and joint ventures

In Latvia, Lithuania and Ukraine corporate profits are subject to income tax. In Latvia and Lithuania the tax rate is 15 per cent and in Ukraine 25 per cent. Taxable income 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 calculated on all the temporary differences at the balance sheet date between the tax bases and carrying amounts of assets and liabilities. A deferred tax asset is recognised in the balance sheet only when it is probable that in the foreseeable future the entity will incur an income tax liability of a similar amount which can be offset against the deferred tax asset.

SEGMENT REPORTING

Segment reporting is based on the organisational units for which information is reported for the Group's internal financial reporting purposes (management accounting and budgeting). The primary segment reporting format is business segments. A business segment is a component of the Group that is engaged in providing a product or service that is different from those of other segments and which functions as an independent profit centre.

The Group's business segments include:

Residential and non-residential	Civil engineering
Residential buildings	Road construction and maintenance
Public buildings	Environmental engineering
Commercial buildings	Hydraulic engineering
Industrial and warehouse facilities	Other civil engineering works

Segment revenue is revenue that is directly attributable to a segment and a relevant portion of Group revenue that can be allocated on a reasonable basis to the segment, whether from sales to external customers or from transactions with other segments of the Group. Revenues arising from transactions between companies operating within the same segment are eliminated.

Segment expense is expense resulting from the operating activities of a segment that is directly attributable to the segment and the relevant portion of expenses that can be allocated to the segment on a reasonable basis, including expenses relating to sales to external customers and expenses relating to transactions with other segments of the Group. Segment expense does not include financing and investment expenses, the Group's general administrative expenses or other expenses that arise at the Group level. Expenses incurred at Group level may be allocated to a segment only if they relate to the segment's operating activities and they can be directly attributed to the segment on a reasonable basis. Expenses arising from transactions between companies operating within the same segment are eliminated. Segment result is segment revenue less segment expense.

Unrealised gains and losses arising within the Group from inter-segment transactions are not allocated to any segment but are presented in inter-segment eliminations. Unrealised gains and losses arising from transactions between the Parent company and a segment are included in the segment's operating profit if there is a reasonable basis for such an allocation.

Segment assets are those operating assets that are employed by a segment in its operating activities and that either are directly attributable to the segment or can be allocated to the segment on a reasonable basis. Segment assets include, for example, current assets, investment properties, property, plant and equipment and intangible assets which are used in a segment's operating activities. If an item of depreciation or amortisation expense is included in segment expense, the underlying asset is included in segment assets. Segment assets do not include assets used for general Group purposes or which cannot be directly attributed to a segment. Segment assets include assets shared by two or more segments if a reasonable basis for allocation exists.

Segment liabilities are liabilities that result from the operating activities of a segment and that either are directly attributable to the segment or can be allocated to the segment on a reasonable basis. Segment liabilities include, for example, trade ant other payables, accrued expenses, customer advances, warranties provisions and other liabilities related to products and services. Segment liabilities do not include loans, finance lease liabilities, debt securities or other liabilities arising from financing activities. Neither do segment liabilities include income tax liabilities.

The Group's unallocable revenue and expenses and assets and liabilities include revenue and expenses and assets and liabilities that are not directly related to any segment and therefore can not be allocated to them.

The Group's secondary segment reporting format is geographical segments.

REVENUE

Revenue is measured at the fair value of the consideration received or receivable. Revenue is recognised only to the extent that it is probable that economic benefits associated with the transaction will flow to the Group and the amount of the revenue can be measured reliably.

Revenue from construction contracts

Contract revenue and contract costs associated with a construction contract are recognised as revenue and expenses respectively by reference to the stage of completion method as soon as the outcome of the contract can be estimated reliably. 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 reliably measured. The stage of completion of a contract is determined by reference to the proportion that contract costs incurred for work performed bear to the estimated total contract costs and surveys of work performed. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

Revenue from the sale of real estate development projects (detached houses, apartments, office premises, etc which have been built on plots belonging to Group entities) is recognised similarly to revenue from the sale of goods, i.e. when the significant risks and rewards of ownership have been transferred to the buyer, it is probable that economic benefits associated with the transaction will flow to the Group, and the amount of revenue and the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Revenue from the rendering of services

Revenue from the rendering of services is recognised by reference to the stage of completion of the transaction at the balance sheet date.

Revenue from the sale of goods

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership have been transferred to the buyer and the amount of the revenue can be measured reliably.

Revenue from the sale of real estate

Revenue form the sale of real estate is recognised when all significant risks and rewards related to the asset have been transferred to the buyer and the Group is not obligated to perform significant additional work. As a rule, a sale is deemed to have taken place when the real right contract has been signed. Amounts received from customers before the conclusion of the contract are recognised as advances.

Finance income

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

DISCONTINUED OPERATIONS

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

INVESTMENTS IN SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES IN THE PARENT COMPANY'S UNCONSOLIDATED FINANCIAL STATEMENTS, THE DISCLOSURE OF WHICH IS REQUIRED BY THE ESTONIAN ACCOUNTING ACT

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

In the Parent company's unconsolidated financial statements, investments in subsidiaries, associates and joint ventures are accounted for using the cost method. Under the cost method, 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 recognised.

When there is any indication that an investment may be impaired or at least at each financial year-end, the Group tests the investments for impairment by estimating their recoverable amounts (see policy Impairment of assets). Impairment losses are recognised in the income statement in finance expenses.

Dividends distributed by subsidiaries, associates and joint ventures are recognised in finance income 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

The Group's risk management process is based on the premise that success depends on ongoing monitoring, accurate measurement and effective mitigation of the risks faced by the Group. The main objective of risk management is to prevent any damage or loss that could jeopardise the Group's equity and continuous operation. The success of financial risk management is represented by changes in liquidity, interest rate, exchange rate and credit risk exposures and fair values compared with the maximum possible ones.

The Group establishes risk hedging policies and implements controls and activities that are aimed at identifying, measuring and monitoring risks and dispersing risks across time, activities and geographical areas. Risk hedging policies and activities are implemented by the boards of Group entities. The boards are overseen by the supervisory councils. A council meets at least four times a year. The councils of subsidiaries are generally composed of members of the Parent company's board of directors and, if there are minority shareholders, representatives of the latter.

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

- Credit risk
- Liquidity risk
- Market risk

CREDIT RISK

Credit risk is the risk that a customer or counterparty to a financial instrument will cause a financial loss for the Group or a subsidiary, associate or jointly controlled entity will cause a financial loss for the Parent company by failing to discharge its obligations. The Group's credit risk arises principally from receivables from customers, investments and warranties and guarantees issued to counterparties.

Credit risk management involves both preventive activities (analysis of the creditworthiness of counterparties) and the limitation of the concentration and accumulation of risks. Group entities perform transactions only with those counterparties that have been considered creditworthy by management. Transaction parties have to settle immediately or, in order to obtain credit, customers and counterparties have to put up additional collateral. The maximum credit risk exposure is represented by the carrying amounts of cash and cash equivalents, warranties, receivables and other financial assets, which are disclosed in note 30.

LIQUIDITY RISK

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's liquidity risk arises principally from liabilities to banks, leasing companies and suppliers. Free funds are held in highly liquid interest-bearing money market instruments issued by banks. The Group's liquidity is affected, first and foremost, by the following factors:

- The capability of Group entities to generate independent net operating cash inflow and the dependence of the capability on the seasonal nature of construction activity (the solvency of customers and / or counterparties).
- The volume and pace of acquiring new investments.
- The pace of expansion in new markets.

Short-term liquidity management is based, first and foremost, on Group entities' approved annual budgets and investment plans. The main tools for short-term liquidity management are the group accounts which pool the funds of Group entities and help mitigate seasonal fluctuations in Group entities' liquidity. Other short-term financing needs are satisfied with overdraft facilities provided by banks.

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

For further information on the Group's liquidity, please refer to note 30.

MARKET RISK

Market risk is the risk that changes in market prices will affect the Group's income or the value of its holdings. Changes in foreign exchange rates, interest rates and the cost of capital affect the Group's income and the value of its financial instruments.

Currency risk is the risk that the Group will incur a loss due to unfavourable changes in the exchange rates of other currencies against the Estonian kroon. The central bank has pegged the Estonian kroon to the euro at a fixed exchange rate of 1 euro = 15.6466 kroons. In other markets where the Group operates (except for Ukraine) the exchange rate of the local currency against the euro is also fixed. Thus, approximately 10 to 15 per cent of the Group's operations involve a currency risk. Owing to low exposure, the Group has not implemented any hedging instruments to counteract the currency risk. The Group's currency risk exposures are described in note 30.

Interest rate risk is the risk that a change in interest rates and / or settlement periods will have a significant impact on the Group's performance. The Group does not use hedging instruments to counteract the interest rate risk. Receivables and liabilities with fixed and floating interest rates are presented in note 30.

COUNTRY RISK

In 2008, the Group earned 11 per cent of its revenue in Ukraine and at 31 December 2008 the Ukrainian assets accounted for 10 per cent of the Group's consolidated assets (see note 23). In the light of the global economic crisis, the Ukrainian economic situation may be considered relatively weak both in the short- and medium-term perspective. The Group's management believes that the Group's financial instruments that are related to Ukraine carry a high risk and the probability that their value may decrease in the foreseeable future is above average (see note 30).

FAIR VALUE

Financial instruments

The Group entities' main financial assets and liabilities are recognised in the balance sheet. The Group is not aware of any significant off-balance sheet financial assets or liabilities. Due to the accounting and reporting policies applied, the carrying amounts of financial assets and liabilities do not differ significantly from their fair values.

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

- Financial assets – financial assets at fair value through profit or loss comprise unlisted equity instruments whose fair value at the balance sheet date was estimated by reference to their existing sales contracts.

- Other receivables and prepayments – the fair value of other receivables and prepayments (except for items related to active construction contracts) was determined as the present value of their future cash flows discounted at the market interest rate at the balance sheet date. Non-current fixed-interest financial assets were discounted by comparing the average market interest rate with their fixed interest rate at the balance sheet date.

- Financial liabilities – the fair value of financial liabilities was determined based on the present value of future principal and interest payments. According to management's assessment, the carrying amounts of short-term financial liabilities do not differ significantly from their fair values because the items are current. Non-current fixed-interest financial liabilities were discounted by comparing the average market interest rate with their fixed interest rate at the balance sheet date.

For a comparison of the fair values and carrying amounts of financial instruments, please refer to note 30.

Investment property

Plots, buildings and other items of real estate that have been classified as investment properties are measured at their fair values. Among other means, fair value is determined by reference to the independent expert opinions of qualified real estate appraisers. Fair value is determined using the following methods:

- **Discounted cash flow analysis.** 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 operating expenses. Depending on the terms of the existing lease (whether and how easily the lease can be terminated by the lessee), 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 current market assessments of the time value of money and the risks specific to the asset. The discount rate is selected based on the market's average capital structure. The discounted cash flow method is used to determine the value of properties that generate stable rental income.

- **Sales comparison method.** Under this method, the market value of a property is determined by reference to the price per square metre agreed in transactions performed with similar properties. This method is used to determine the value of properties that do not generate rental income but are held for development or capital appreciation. As the transactions selected for comparison are practically never identical with the property being valued, their prices are adjusted to reflect differences in time, location, size and detailed plan. Application of this method assumes that a sufficient number of arm's length transactions with similar properties have been or are being performed in the area in which the property is located at the time the valuation is performed.
- **A contract under the law of obligations.** The fair value of properties which at the balance sheet date have been sold by a contract under the law of obligations but whose real right contract 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 balance sheet date or the real right contract is concluded after the balance sheet date but before the date management authorises the financial statements for issue).

All investment properties whose values were determined using the discounted cash flow method are presented in the balance sheet as of 31 December 2008 at their fair values. The technique can be applied reliably also under stressed market circumstances because the value of a property is determined by reference to real active rental contracts that generate real cash inflow (rental payments) and real cash outflow (property management expenses). As a result of the valuation, the total value of relevant properties was written down by 11,530 thousand kroons (7,369 thousand euros). The write-down is mainly attributable to changes in the terms and conditions of rental contracts and the discount rate which reflects the increased risks of the real estate market.

The Group commissioned an opinion from internationally recognised real estate appraisers regarding the fair values of the Group's investment properties that are measured under the sales comparison method. The Group applies the method to properties that do not generate rental income, that are not being developed (there is no detailed plan and/or no business plan) or actively marketed, and in respect of which the Group has not received any purchase bids.

The Group defines fair value in accordance with IAS 40 Investment Property. According to the definition, fair value can be determined if there are two independent, knowledgeable, willing parties that are reasonably informed about the nature and characteristics of the property and are motivated but not compelled (e.g. there is no need for a quick sale) to perform the transaction. The fair value of investment property specifically excludes an estimated price inflated or deflated by special terms or circumstances such as atypical financing, sale and leaseback arrangements, special considerations or concessions granted by anyone associated with the sale.

Under IFRS the best evidence of the fair value of investment property is given by current prices in an active market for similar property (e.g. properties that have not been developed) in the same location and condition (e.g. properties without a detailed plan).

The Group uses the sales comparison method for measuring the value of six properties, four of them located in western Estonia near Pärnu, one on the island of Hiiumaa and one in Tartu. Application of the technique assumes the existence of comparable transactions with similar properties in the same area. In their report, the appraisers state the following:

- During the past one and a half years, the real estate market has experienced a rapid downturn characterised by a significant decrease in the number of transactions performed. The sharpest decline has occurred in the sector of unimproved plots (vacant plots where no construction activity has been performed), which has been severely hit by the credit crunch that has reduced both developers' and potential buyers' financing options.
- In those areas where the Group's plots are located, transactions with unimproved properties have dropped significantly. For example, in Pärnu only 23 transactions were performed throughout 2008 and the transactions involved properties of different designated purposes (e.g. residential, commercial and industrial land). In view of the adverse developments in the real estate market in 2008, it is highly probable that the transactions include forced sales that do not correspond to the definition of a free and willing transaction.
- The reliability of transaction prices is materially undermined by the fact that statistically the average unit price of transactions performed in Pärnu County in 2008 counter-intuitively increased by 8 per cent compared with 2007.

Because of the above, the appraisers of the real estate company that performed the valuation decided not to express an opinion on the fair value of the Group's investment properties that are measured using the sales comparison method. In their opinion, the information available in the market was so unreliable that it did not allow determining fair value as defined in the valuation and accounting standards.

The Group's management is of the opinion that in the long term perspective the fair value of the Group's investment properties has not decreased. Management does not wish to perform indirect valuations by reference to average indicators (e.g. the 8 per cent increase in unit price) if there is no reliable information on the value of a particular property because previous valuations have been based on estimates that have been considered reliable by real estate appraisers.

CAPITAL MANAGEMENT

The board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain development of the business.

The board pursues a conservative capital management policy by maintaining gearing at below 20 per cent.

	EEK '000		*EUR '000*	
	2008	**2007**	**2008**	**2007**
Total interest-bearing liabilities	554,527	399,580	35,441	25,538
Cash and cash equivalents	-296,184	-236,112	-18,930	-15,090
Net interest-bearing liabilities	258,343	163,468	16,511	10,448
Total equity	863,312	809,592	55,176	51,742
Invested capital (interest-bearing liabilities + equity)	1,417,839	1,209,172	90,617	77,280
Gearing ratio *	18%	14%	18%	14%

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

Minimum capital requirements

At the balance sheet date, the Group had a loan agreement with Swedbank under which the Group is required to maintain the equity ratio (equity to equity and liabilities) at 25 per cent or above (2008 actual: 36.5 per cent; 2007 actual: 36.9 per cent; 2006 actual: 34.9 per cent). In January 2008, the Group entered into a loan agreement with Danske Bank A/S Estonian branch under which the equity ratio has to be at least 30 per cent.

The laws of the Parent company's domicile provide minimum requirements to a company's equity. Under the law, the equity of a public limited company has to amount to at least half of its share capital but not less than 400 thousand kroons (26 thousand euros).

In the reporting period the Group complied with all contractual and statutory capital and ratio requirements.

Dividend policy

Dividend policy plays a significant role in the Group's capital management. To date, the amount of a dividend distribution has been determined by reference to:

- The dividend expectations of the majority shareholder Nordic Contractors AS.
- The general rates of return on the (Estonian) securities market.
- The optimal ratio and volume of debt and equity capital that is required for the Group's profitable growth and sustainable development.

NOTE 6. CHANGES IN THE STRUCTURE OF NORDECON INTERNATIONAL GROUP

Scope of consolidation

The consolidated financial statements of Nordecon International as at and for the year ended 31 December 2008 comprise 23 subsidiaries, 12 of them operating in Estonia. As at 31 December 2007, the Group had 15 subsidiaries including 10 in Estonia. Changes in the scope of the subsidiaries' consolidation are disclosed in this note.

SIGNIFICANT SUBSIDIARIES AS OF BALANCE SHEET DATE

Name of subsidiary	Country of incorporation	Ownership interest 2008 (%)	Ownership interest 2007 (%)
Nordecon Ehitus AS	Estonia	100	100
Nordecon Infra AS	Estonia	100	100
Eston Ehitus AS	Estonia	52	52
Eurocon OÜ	Estonia	64	64
Mapri Projekt OÜ	Estonia	52	52
Nordecon Infra SIA	Latvia	56	-
Eurocon Ukraine TOV	Ukraine	64	61

Information on interests in associates is presented in note 12.

BUSINESS COMBINATIONS

Acquisition of Nordecon Infra SIA

On 2 May 2008, Nordecon Infra AS' (formerly Aspi AS) subsidiary Kaurits OÜ (Nordecon Infra AS' interest in Kaurits OÜ is 52 per cent) sold a 66 per cent stake in Nordecon Infra SIA (formerly Abagars SIA); Nordecon Infra AS acquired 56 per cent and the minority shareholder an additional 10 per cent of the interest in Abagars SIA. The interest acquired by Nordecon Infra AS cost 7,814 thousand kroons (499 thousand euros). The resulting gain from divestment of associate to third parties resulted 4,936 thousand kroons (315 thousand euros).

Through the transaction Nordecon Infra AS gained control of Nordecon Infra SIA and its subsidiaries. Accordingly, since the transaction the entity has been consolidated line-by-line.

NET ASSETS OF NORDECON INFRA SIA AT THE DATE OF ACQUISITION

	EEK '000			*EUR '000*		
	Pre-acquisition carrying amount	Total fair value (100%)	Recognised value on acquisition (56%)	Pre-acquisition carrying amount	Total fair value (100%)	Recognised value on acquisition (56%)
Current assets	128,599	128,599	72,015	8,219	8,219	4,603
Non-current assets	31,331	31,331	17,545	2,002	2,002	1,121
Current liabilities	-141,652	-141,652	-79,325	-9,053	-9,053	-5,070
Non-current liabilities	-14,792	-14,792	-8,283	-945	-945	-529
Minority interest	-1,601	-1,601	-897	-102	-102	-57
Net identifiable assets and liabilities	**1,886**	**1,886**	**1,056**	**121**	**121**	**67**
Unrealised intra-Group sales gain			4,063			260
Goodwill			2,695			172
Cost			7,814			499
Paid in cash*			7,814			499

* As an intra-Group transaction, the acquisition of Nordecon Infra SIA has not been included in the statement of cash flows.

The revenue and net profit generated by Nordecon Infra SIA from the date of the business combination until the end of 2008 amount to 229,757 thousand kroons (14,684 thousand euros) and 6,827 thousand kroons (436 thousand euros) respectively. If the business combination had occurred at the beginning of 2008, the Group's consolidated revenue and consolidated profit would have been 310,467 thousand kroons (19,842 thousand euros) and 8,056 thousand kroons (515 thousand euros) larger respectively.

In connection with the acquisition and the line-by-line consolidation of Nordecon Infra SIA, the Group acquired goodwill of 8,288 thousand kroons (530 thousand euros) recognised in the balance sheet of Vides Tikli SIA, a subsidiary of Nordecon Infra SIA.

ACQUISITION OF MINORITY INTERESTS

Acquisition of the minority interest in Eurocon Ukraine TOV

On 5 February 2008, Eurocon OÜ acquired from an individual a 4 per cent stake in its subsidiary Eurocon Ukraine TOV, raising its interest in the entity to 100 per cent.

NET ASSETS OF EUROCON UKRAINE TOV AT THE DATE OF ACQUISITION

	EEK '000			*EUR '000*		
	Pre-acquisition carrying amount	Total fair value (100%)	Recognised value on acquisition (4%)	Pre-acquisition carrying amount	Total fair value (100%)	Recognised value on acquisition (4%)
Current assets	131,391	131,391	5,256	8,397	8,397	336
Non-current assets	42,647	42,647	1,706	2,726	2,726	109
Current liabilities	-77,499	-77,499	-3,100	-4,953	-4,953	-198
Non-current liabilities	-74,100	-74,100	-2,964	-4,736	-4,736	-189
Net identifiable assets and liabilities	22,439	22,439	898	1,434	1,434	57
Goodwill			-163			-10
Cost			735			47
Paid in cash			735			47

The business combination gave rise to negative goodwill of 163 thousand kroons (10 thousand euros), which has been recognised as finance income in the consolidated income statement.

Acquisition of a minority interest in Eurocon OÜ

On 12 February 2008, Nordecon International AS (at the date of the transaction Eesti Ehitus AS) acquired a 2.5 per cent stake in Eurocon OÜ from a minority shareholder, increasing its holding in Eurocon OÜ to 66.5 per cent.

NET ASSETS OF EUROCON OÜ AT THE DATE OF ACQUISITION

	EEK '000			*EUR '000*		
	Pre-acquisition carrying amount	Total fair value (100%)	Recognised value on acquisition (2.5%)	Pre-acquisition carrying amount	Total fair value (100%)	Recognised value on acquisition (2.5%)
Current assets	145,618	145,618	3,640	9,307	9,307	233
Non-current assets	89,634	89,634	2,241	5,729	5,729	143
Current liabilities	-91,950	-91,950	-2,299	-5,877	-5,877	-147
Non-current liabilities	-111,765	-111,765	-2,794	-7,143	-7,143	-179
Net identifiable assets and liabilities	31,537	31,537	788	2,016	2,016	50
Goodwill			6,655			425
Cost			7,443			476
Paid in cash			7,443			476

On 4 April 2008, the share capital of Eurocon OÜ was increased with an additional contribution of 3,300 kroons (211 euros) made by an individual. As a result, the Group's interest in the subsidiary Eurocon OÜ decreased to 64 per cent.

Acquisition of a minority interest in Kaurits OÜ

On 20 May 2008, Nordecon Infra AS (formerly Aspi AS) purchased a 14 per cent interest in its subsidiary Kaurits OÜ from the minority shareholder, taking its holding in Kaurits OÜ to 66 per cent; the investment cost 12,000 thousand kroons (767 thousand euros).

NET ASSETS OF KAURITS OÜ AT THE DATE OF ACQUISITION

	EEK '000			*EUR '000*		
	Pre-acquisition carrying amount	Total fair value (100%)	Recognised value on acquisition (14%)	Pre-acquisition carrying amount	Total fair value (100%)	Recognised value on acquisition (14%)
Current assets	24,384	24,384	3,414	1,558	1,558	218
Non-current assets	88,067	88,067	12,329	5,629	5,629	788
Current liabilities	-28,462	-28,462	-3,985	-1,819	-1,819	-255
Non-current liabilities	-49,536	-49,536	-6,935	-3,166	-3,166	-443
Net identifiable assets and liabilities	34,453	34,453	4,823	2,202	2,202	308
Goodwill			7,176			459
Cost			12,000			767
Paid in cash			12,000			767

The acquisition of an additional interest by Nordecon Infra AS brought about changes in the management of DSN Ehitusmasinad OÜ, a subsidiary of Kaurits OÜ, and in June 2008 Nordecon Infra AS gained control of the entity. DSN Ehitusmasinad OÜ has been accounted for as a subsidiary and has been consolidated line-by-line since 1 July 2008. In connection with the acquisition of DSN Ehitusmasinad OÜ, the Group's goodwill increased by goodwill of 8,289 thousand kroons (530 thousand euros).

Amounts paid in cash on the acquisition of subsidiaries and minority interests

THE AMOUNT PRESENTED IN THE STATEMENT OF CASH FLOWS IN RESPECT OF THE ACQUISITION OF SUBSIDIARIES COMPRISES THE FOLLOWING ITEMS

	EEK '000		*EUR '000*		
	Paid in 2008	Paid in 2007	Paid in 2008	Paid in 2007	Year of acquisition
Mapri Projekt OÜ	0	-1,025	0	-66	2005
Kaurits OÜ	-12,000	-8,200	-767	-524	2006; 2008
Eston Ehitus AS*	-187,235	0	-11,966	0	2007
Eurocon Ukraine TOV	-735	0	-47	0	2008
Eurocon OÜ	-7,443	0	-476	0	2008
LCB SIA**	-7,974	0	-510	0	2009
Total cash outflow	**-215,387**	**-9,225**	**-13,766**	**-590**	
Cash inflow on acquisition	4,056	25,661	259	1,640	
Total net cash flow	**-211,331**	**16,436**	**-13,507**	**1,050**	

* Participation in Eston Ehitus AS was acquired in 2007 last quarter. Payments made in current period relate to conditions set out in the share purchase agreement.
** Prepayment for the subsidiary LCB SIA that was acquired after the balance sheet date. The payment includes capitalised transaction costs of 178 thousand kroons (11 thousand euros).

ESTABLISHMENT OF SUBSIDIARIES

Establishment of Instar Property OÜ

On 18 February, Eurocon OÜ established a wholly-owned subsidiary – Instar Property OÜ. At the date of establishment, the share capital of Instar Property OÜ was 40,000 kroons (3 thousand euros). Instar Property OÜ has established a subsidiary Instar Property TOV in Ukraine.

Establishment of MP Ukraine TOV

On 8 September 2008, Mapri Projekt OÜ and Eurocon Ukraine TOV established MP Ukraine TOV, a company domiciled in Ukraine. The ownership interest of Mapri Projekt OÜ is 95 per cent and that of Eurocon Ukraine TOV 5 per cent. The share capital contribution was 53 thousand Ukrainian hryvnas which at the exchange rate of the date of the transaction equalled 121 thousand kroons (8 thousand euros).

PARTICIPATION IN JOINT VENTURES

In 2008 the Group participated in three joint ventures:

Tallinn Airport – partnership contract I

The Group participated in the rehabilitation of Tallinn Airport airside area under a partnership contract. The project was under the joint control of three parties. The Group's share in the profit of the contract was one third. Each party was responsible for the delivery and risks of the contract to the extent of its share in the venture. The penalty for a deliberate breach of contract was 100 thousand euros. The construction phase of project was completed in 2008.

Vaida-Aruvalla road – partnership contract II

In addition, the Group participated in the construction of the Vaida–Aruvalla road under a partnership contract. The project was under the joint control of four parties. The Group's share in the profit of the contract was one fourth. Each party was responsible for the delivery and risks of the contract to the extent of its share in the venture. The construction phase of project was completed in 2008.

Koidula railway border station – partnership contract III

The Group is also involved in the construction of the Koidula railway border station under a partnership contract (signed in 2008). The project is under the control of three parties. Each party is responsible for the delivery and risks of the contract to the extent of its share in the venture. The contract is not equally divided between the partners. On behalf of the Group, the project is performed by Nordecon International AS and Nordecon Infra AS. The Group's share of the contract is approximately 62 per cent.

Venture partners did not establish companies for the performance of the above contracts. Therefore, each venturer has recognised in its financial statements the assets it controlled/controls, the liabilities and expenses it has incurred, and the share of income that it has earned, and the consolidated financial statements have not been adjusted or subjected to any additional consolidation procedures.

	EEK '000	*EUR '000*	*EEK '000*	*EUR '000*	*EEK '000*	*EUR '000*
	Partnership contract I		Partnership contract II		Partnership contract III	
Total income	103,125	6,591	127,280	8,135	14,294	914
Including 2008	18,791	1,201	41,009	2,621	14,294	914
Total expenses	88,079	5,629	122,131	7,806	13,459	860
Including 2008	12,551	802	46,778	2,990	13,459	860
Receivables at 31 December 2008	5,032	322	1,077	69	30,967	1,979
Including from venture partners	0	0	1,077	69	0	0
Payables at 31 December 2008	7,139	456	13,786	881	2,662	170
Including to venture partners	0	0	13,786	881	0	0

	EEK '000	*EUR '000*	*EEK '000*	*EUR '000*
	Partnership contract I		Partnership contract II	
Total income	84,334	5,390	86,271	5,514
Including 2007	78,457	5,014	86,271	5,514
Total expenses	75,528	4,827	75,353	4,816
Including 2007	69,892	4,467	75,353	4,816
Receivables at 31 December 2007	29,322	1,874	59,986	3,834
Including from venture partners	29,322	1,874	37,093	2,371
Payables at 31 December 2007	26,722	1,708	58,683	3,751
Including to venture partners	0	0	43,167	2,759

NOTE 7. CASH AND CASH EQUIVALENTS

	EEK '000		EUR '000	
As at 31 December	**2008**	**2007**	**2008**	**2007**
Current accounts	166,184	44,725	10,621	2,858
Term deposits with a short maturity	130,000	191,387	8,309	12,232
Total cash and cash equivalents	**296,184**	**236,112**	**18,930**	**15,090**

The amounts in current accounts are placed in overnight deposits. The interest rates of the Group's overnight deposits range from 5.35 to 5.80 per cent per year.

The interest rates of the Group's term deposits range from 6.20 to 7.75 per cent per year.

The Group's exposure to the interest rate risk and a sensitivity analysis of the Group's financial assets and financial liabilities are disclosed in note 30.

NOTE 8. RECEIVABLES AND PREPAYMENTS

TRADE RECEIVABLES

	EEK '000		EUR '000	
As at 31 December	**2008**	**2007**	**2008**	**2007**
Trade receivables	482,046	529,593	30,808	33,847
Allowance for impairment	-8,111	-17,774	-518	-1,136
Total trade receivables	**473,935**	**511,819**	**30,290**	**32,711**

Changes in the impairment allowance:

	EEK '000		EUR '000	
	2008	**2007**	**2008**	**2007**
Opening balance	-17,774	-1,892	-1,136	-121
Reversal of impairment losses (recovery of impaired items)	19,327	588	1,235	38
Impairment losses on receivables	-10,296	-18,010	-658	-1,151
Items considered irrecoverable during the period	632	1,540	40	98
Closing balance	**-8,111**	**-17,774**	**-518**	**-1,136**

OTHER RECEIVABLES AND PREPAYMENTS

		EEK '000		EUR '000	
As at 31 December	*Note*	**2008**	**2007**	**2008**	**2007**
Due from customers for contract work	*24*	176,330	106,379	11,270	6,799
Receivables from companies of Nordic Contractors Group	*34*	52,726	53,379	3,370	3,412
Receivables from associates	*34*	23,824	26,681	1,523	1,706
Loans to associates (including interest)	*34*	11,247	8,341	718	533
Prepayments for services		18,476	12,029	1,181	769
Retentions receivable	*24*	27,897	42,872	1,783	2,740
Loans to legal persons		40,853	0	2,611	0
Prepaid taxes		29,727	10,038	1,900	642
Prepaid expenses		10,050	2,528	642	162
Accrued income		1,237	134	79	9
Miscellaneous receivables and prepayments		16,174	0	1,033	0
Total other receivables and prepayments		**408,541**	**262,381**	**26,110**	**16,769**

Retentions receivable comprise amounts of progress billings withheld by customers in accordance with the terms of construction contracts. The amounts will be recovered within 12 months after the balance sheet date.

Loans to non-Group legal persons (including interest) total 40,853 thousand kroons (2,611 thousand euros); principal payments receivable amount to 37,778 thousand kroons (2,414 thousand euros).

Miscellaneous receivables and prepayments include a prepayment of 7,796 thousand kroons (496 thousand euros) made for the acquisition of the Latvian company LCB SIA. For further information, please refer to note 35.

The Group's exposure to the credit and currency risks related to receivables is disclosed in note 30.

NOTE 9. DEFERRED TAX ASSETS

DEFERRED TAX ASSETS ARE ATTRIBUTABLE TO THE FOLLOWING BALANCE SHEET ITEMS:

	EEK '000		*EUR '000*	
As at 31 December	**2008**	**2007**	**2008**	**2007**
Other receivables and prepayments	776	1,905	50	122
Total deferred tax assets	**776**	**1,905**	**50**	**122**

It is probable that the deferred tax assets can be offset in the next financial year against the Group's income tax liabilities.

Changes in temporary differences:

Other receivables and prepayments	*EEK '000*	*EUR '000*
Balance at 1 January 2007	**1,051**	**65**
Recognised in the income statement	890	57
Balance at 31 December 2007	**1,905**	**122**
Recognised in the income statement	-1,129	-72
Balance at 31 December 2008	**776**	**50**

NOTE 10. INVENTORIES

	EEK '000		*EUR '000*	
As at 31 December	**2008**	**2007**	**2008**	**2007**
Raw and other materials	46,069	35,701	2,944	2,282
Work in progress	51,717	200,303	3,305	12,802
Finished goods	133,621	0	8,540	0
Property held for resale	126,498	125,201	8,085	8,002
Prepayments to materials suppliers	28,828	32,324	1,842	2,066
Total inventories	**386,733**	**393,529**	**24,717**	**25,151**

Raw and other materials comprise materials acquired for construction projects and road maintenance. No inventories were written down in the reporting or prior period.

WORK IN PROGRESS COMPRISES THE COSTS RELATED TO CONSTRUCTION CONTRACTS ACTIVE AT THE BALANCE SHEET DATE. WORK IN PROGRESS:

	EEK '000		*EUR '000*	
As at 31 December	**2008**	**2007**	**2008**	**2007**
Costs related to apartment houses	22,466	194,602	1,436	12,437
Other construction projects	29,251	5,701	1,869	365
Total	**51,717**	**200,303**	**3,305**	**12,802**

Finished goods comprise apartments (units in real estate projects) completed but not yet sold. Based on sales transaction performed with similar assets during the period close to the balance sheet date, the net realisable value of the assets exceeded their carrying amount as at 31 December and therefore there was no need for recognising an impairment loss.

At the reporting date, properties acquired for resale totalled 126,498 thousand kroons (8,085 thousand euros) (31 December 2007: 125,501 thousand kroons, 8,002 thousand euros). In the reporting period, the Group acquired additional properties of 7,002 thousand kroons (448 thousand euros) and properties of 5,705 thousand kroons (365 thousand euros) were transferred to work in progress in connection with the commencement of construction activity.

NOTE 11. NON-CURRENT ASSETS HELD FOR SALE

		EEK '000		EUR '000	
As at 31 December	*Note*	2008	2007	2008	2007
Investment property		0	198	0	13
European House TOV		0	5,706	0	365
Passage Theatre TOV	*6*	0	37,458	0	2,394
Total		**0**	**43,362**	**0**	**2,771**

The investment in the Ukrainian company European House TOV was sold in July 2008. Sales gain amounted to 3,136 thousand kroons (200 thousand euros).

In 2008 Eurocon Ukraine TOV completed the sale of its 61.3 per cent stake in the Ukrainian company Passage Theatre TOV, which at the end of 2007 was classified as a non-current asset held for sale. Sales gain on the transaction amounted to 7,399 thousand kroons (473 thousand euros). After the transaction the remaining shareholding of Eurocon Ukraine TOV in Passage Theatre TOV was 27 per cent. Of which 24 per cent was sold in December 2008 (see note 12).

NOTE 12. LONG-TERM INVESTMENTS

		EEK '000		EUR '000	
As at 31 December	*Note*	2008	2007	2008	2007
Investments in associates		5,927	45,170	379	2,887
Long-term loans to associates (including interest)	*34*	105,015	54,551	6,712	3,486
Miscellaneous long-term receivables		706	6,353	45	406
Long-term trade receivables		206	5,198	13	332
Other long-term investments		751	414	48	26
Total long-term investments		**112,605**	**111,686**	**7,197**	**7,138**

Investments in associates

THE GROUP'S INTERESTS IN ASSOCIATES:

		The Group's indirect interest		
Associate	Domicile	31 December 2008	31 December 2007	Business activity
Technopolis-2 TOV	Ukraine	32%	31%	Real estate development
V.I. Center TOV	Ukraine	28%	32%	Real estate development
EA Reng TOV	Ukraine	0%	31%	Design
Baltik Development TOV	Ukraine	0%	31%	Real estate development
Passage Theatre TOV	Ukraine	0%	18%	Real estate development
Kastani Kinnisvara OÜ	Estonia	26%	26%	Real estate development
Nordecon Infra SIA	Latvia	0%	34%	Environmental and utility engineering
DSN Ehitusmasinad OÜ	Estonia	0%	34%	Sale and maintenance of construction machinery and equipment
Sepavara OÜ	Estonia	27%	27%	Real estate development
Kalda Kodu OÜ	Estonia	23%	23%	Real estate development
Crislivinca OÜ	Estonia	18%	18%	Real estate development

FINANCIAL INFORMATION ON THE ASSOCIATES AND THE VALUE OF THE INVESTMENTS

EEK '000	31 December 2008			2008		31 December 2008
Associate	Assets	Liabilities	Equity	Revenue	Profit / loss	Value of investment in the Group's balance sheet
Technopolis-2 TOV	7,687	19,642	-11,955	207	-12,732	0
V.I. Center TOV	145,955	204,913	-58,958	0	-83,770	0
Kastani Kinnisvara OÜ	29,999	41,583	-11,584	1,735	-8,629	0
Sepavara OÜ	6,273	6,201	72	0	-16	36
Kalda Kodu OÜ	54,168	54,129	39	0	-23	17
Crislivinca OÜ	93,190	80,305	12,885	10,632	-3,684	5,874
Total	**337,272**	**406,773**	**-69,501**	**12,574**	**-108,854**	**5,927**

EUR '000	31 December 2008			2008		31 December 2008
Associate	Assets	Liabilities	Equity	Revenue	Profit / loss	Value of investment in the Group's balance sheet
Technopolis-2 TOV	491	1,255	-764	13	-814	0
V.I. Center TOV	9,328	13,096	-3,768	0	-5,354	0
Kastani Kinnisvara OÜ	1,917	2,658	-740	111	-551	0
Sepavara OÜ	401	396	5	0	-1	2
Kalda Kodu OÜ	3,462	3,459	2	0	-1	1
Crislivinca OÜ	5,956	5,132	824	680	-235	375
Total	**21,556**	**25,998**	**-4,442**	**804**	**-6,957**	**379**

EEK '000	31 December 2007			2007		31 December 2007
Associate	Assets	Liabilities	Equity	Revenue	Profit / loss	Value of investment in the Group's balance sheet
Technopolis-2 TOV	9,075	13,833	-4,758	0	-138	6,612
V.I.Center TOV	30,973	32,758	- 1,785	0	-2,347	10,598
EA Reng TOV	3,950	2,954	996	13,648	1,284	304
Baltik Development TOV	23,224	25,067	-1,843	0	-1,964	21
Passage Theatre TOV	118,511	22,316	96,195	0	-1,375	9,892
Kastani Kinnisvara OÜ	34,580	37,535	-2,955	23,832	-2,331	0
Nordecon Infra SIA	104,156	101,892	2,264	101,168	-8,842	0
DSN Ehitusmasinad OÜ	22,476	16,807	5,669	55,094	3,166	10,545
Sepavara OÜ	5,888	5,800	88	0	-12	44
Kalda Kodu OÜ	51,303	51,241	62	0	-12	27
Crislivinca OÜ	100,555	83,986	16,569	277	20	7,127
Total	**504,691**	**394,189**	**110,502**	**194,017**	**-12,551**	**45,170**

EUR '000	31 December 2007			2007		31 December 2007
Associate	Assets	Liabilities	Equity	Revenue	Profit / loss	Value of investment in the Group's balance sheet
Technopolis-2 TOV	580	884	-304	0	-9	423
V.I.Center TOV	1,980	2,094	-114	0	-150	677
EA Reng TOV	252	189	64	872	82	19
Baltik Development TOV	1,484	1,602	-118	0	-126	1
Passage Theatre TOV	7,574	1,426	6,148	0	-88	632
Kastani Kinnisvara OÜ	2,210	2,399	-189	1,523	-149	0
Nordecon Infra SIA	6,657	6,512	145	6,466	-565	0
DSN Ehitusmasinad OÜ	1,436	1,074	362	3,521	202	674
Sepavara OÜ	376	371	6	0	-1	3
Kalda Kodu OÜ	3,279	3,275	4	0	-1	2
Crislivinca OÜ	6,427	5,368	1,059	18	1	455
Total	**32,256**	**25,193**	**7,062**	**12,400**	**-802**	**2,887**

THE GROUP'S SHARE OF PROFIT OR LOSS OF ASSOCIATES

EEK '000	2008			2007		
		Recognised/recorded			Recognised/recorded	
	Profit / loss under the equity method	in the consolidated income statement	off the balance sheet	Profit / loss under the equity method	in the consolidated income statement	off the balance sheet
Technopolis-2 TOV	-6,365	-6,162	-203	-42	-42	0
V.I.Center TOV	-36,859	-7,759	-29,100	-751	-751	0
EA Reng TOV	-5,945	-5,945	0	0	0	0
Baltik Development TOV	0	0	0	304	304	0
Passage Theatre TOV	0	0	0	-603	-37	-566
Kastani Kinnisvara OÜ	-4,314	-3,633	-681	-880	0	-880
Nordecon Infra SIA	0	0	0	-3,436	-3,190	-246
DSN Ehitusmasinad OÜ	17	17	0	545	545	0
Sepavara OÜ	-8	-8	0	-6	-6	0
Kalda Kodu OÜ	-10	-10	0	-5	-5	0
Crislivinca OÜ	-1,253	-1,253	0	7	7	0
Total	**-54,737**	**-24,753**	**-29,984**	**-4,867**	**-3,175**	**-1,692**

EUR '000	2008			2007		
		Recognised/recorded			Recognised/recorded	
	Profit / loss under the equity method	in the consolidated income statement	off the balance sheet	Profit / loss under the equity method	in the consolidated income statement	off the balance sheet
Technopolis-2 TOV	-407	-394	-13	-3	-3	0
V.I.Center TOV	-2,356	-496	-1,860	-48	-48	0
EA Reng TOV	-380	-380	0	0	0	0
Baltik Development TOV	0	0	0	19	19	0
Passage Theatre TOV	0	0	0	-39	-2	-36
Kastani Kinnisvara OÜ	-276	-232	-44	-56	0	-56
Nordecon Infra SIA	0	0	0	-220	-204	-16
DSN Ehitusmasinad OÜ	1	1	0	35	35	0
Sepavara OÜ	-1	-1	0	0	0	0
Kalda Kodu OÜ	-1	-1	0	0	0	0
Crislivinca OÜ	-80	-80	0	0	0	0
Total	**-3,498**	**-1,582**	**-1,916**	**-311**	**-203**	**-108**

Mapri Projekt OÜ has made a provision of 3,633 thousand kroons (232 thousand euros) in the balance sheet as of 31 December 2008 because it has a statutory obligation to restore the negative equity of Kastani Kinnisvara OÜ. The equity will be restored in 2009 (see also notes 19 and 35).

The Group as a minority shareholder has no binding obligation to restore the associate's negative equity. Therefore, relevant provisions have not been made.

Divestment of investments in associates

In July 2008 Eurocon Ukraine TOV sold its 50 per cent stake in the Ukrainian company Baltik Development TOV. Financial gain from divestment was 26,450 thousand kroons (1 690 thousand euros). Subsequent to the transaction, the Group has no stake in Baltik Development TOV.

In September 2008 Eurocon Ukraine TOV sold 8 per cent of its interest in the Ukrainian company V.I. Center TOV. Financial gain from divestment was 12,342 thousand kroons (789 thousand euros). After, the transaction, the Group's indirect interest in V.I. Center TOV is 28 per cent.

In December 2008 Eurocon Ukraine TOV sold a 24 per cent stake in the Ukrainian company Passage Theatre TOV Financial gain from divestment was 12,387 thousand kroons (792 thousand euros). After the transaction, the Group's indirect investment in Passage Theatre TOV is less than 2 per cent and it has been transferred to other long-term investments.

Long-term loans to associates

Information on loans granted to associates and related interest receivables is disclosed in note 34.

Other long-term investments

Other investments comprise the Group's 6.3 per cent indirect investment in E-Trading AS (through the subsidiary Eston Ehitus AS) and the Group's 1.9 per cent indirect investment in Passage Theatre TOV.

NOTE 13. INVESTMENT PROPERTY

	EEK '000		*EUR '000*	
	2008	2007	2008	2007
Investment property at 1 January	**133,984**	**24,199**	**8,563**	**1,547**
Acquisitions through business combinations	0	104,559	0	6,683
Transfers to non-current assets held for sale	0	-198	0	-13
Transfers to inventories	0	-1,913	0	-122
Transfers from property, plant and equipment	0	168	0	11
Transfers to property, plant and equipment	-5,671	0	-362	0
Acquisitions	0	1,818	0	116
Re-measurement to fair value	-11,530	5,351	-737	342
Investment property at 31 December	**116,783**	**133,984**	**7,464**	**8,563**

In the reporting period, the Group ended the lease of a legal share in a property otherwise occupied by the Group itself. During the lease term, the leased out part was accounted for as an investment property. On the expiry of the lease, the part that used to be accounted for as an investment property of 5,671 thousand kroons (362 thousand euros) was transferred to property, plant and equipment.

In 2008, the Group wrote down investment property by 11,530 thousand kroons (737 thousand euros). Items that were written down included properties whose fair value is measured using the discounted cash flow method. The fair value of properties measured using the sales comparison method could not be determined reliably (for further information see note 5).

The period's rental income on investment properties amounted to 3,503 thousand kroons (224 thousand euros) and operating expenses totalled 1,724 thousand kroons (110 thousand euros), yielding net rental income of 1,779 thousand kroons (114 thousand euros).

In 2007, rental income on investment properties amounted to 630 thousand kroons (40 thousand euros) and operating expenses totalled 226 thousand kroons(14 thousand euros), yielding a net rental income of 404 thousand kroons (26 thousand euros).

Properties that do not generate rental income did not give rise to any significant management expenses.

NOTE 14. PROPERTY, PLANT AND EQUIPMENT

EEK '000	Land and buildings	Plant and equipment	Other items of property, plant and equipment	Assets under construction	Total
Cost					
At 1 January 2007	13,577	256,203	42,444	34,573	346,797
Acquisitions through business combinations	14	306	1,125	1,594	3,039
Additions	2,536	86,647	19,675	466	109,324
Disposals	-168	-37,483	-17,912	-34,542	-90,105
Effect of movements in exchange rates	0	-393	-322	0	-715
At 31 December 2007	**15,959**	**305,280**	**45,010**	**2,091**	**368,340**
Acquisitions through business combinations	800	20,663	2,262	12,713	36,438
Additions	14,354	67,907	10,813	-12,976	80,098
Transfer from investment property	5,671	0	0	0	5,671
Disposals	0	-26,516	-1,386	0	-27,902
Transfers	0	-393	393	0	0
Effect of movements in exchange rates	0	-275	-30	0	-305
At 31 December 2008	**36,784**	**366,666**	**57,061**	**1,828**	**462,339**
Depreciation					
At 1 January 2007	996	100,421	21,706	0	123,123
Depreciation charge for the year	400	50,815	9,450	0	60,665
Disposals	0	-25,230	-11,813	0	-37,043
Effect of movements in exchange rates	0	-99	-54	0	-153
At 31 December 2007	**1,396**	**125,907**	**19,289**	**0**	**146,592**
Depreciation charge for the year	891	58,404	11,109	0	70,404
Disposals	0	-16,453	-1,525	0	-17,978
Transfers	-10	-309	309	0	-10
Effect of movements in exchange rates	0	31	6	0	37
At 31 December 2008	**2,277**	**167,580**	**29,188**	**0**	**199,045**
Carrying amount					
At 1 January 2007	12,581	155,782	20,738	34,573	223,674
At 31 December 2007	14,563	179,373	25,721	2,091	221,748
At 31 December 2008	**34,507**	**199,086**	**27,874**	**1,828**	**263,295**

EUR '000	Land and buildings	Plant and equipment	Other items of property, plant and equipment	Assets under construction	Total
Cost					
At 1 January 2007	868	16,374	2,713	2,210	22,164
Acquisitions through business combinations	1	20	72	102	194
Additions	162	5,538	1,257	30	6,987
Disposals	-11	-2,396	-1,145	-2,208	-5,759
Effect of movements in exchange rates	0	-25	-21	0	-46
At 31 December 2007	**1,020**	**19,511**	**2,877**	**134**	**23,541**
Acquisitions through business combinations	51	1,321	145	813	2,329
Additions	917	4,340	691	-829	5,119
Transfer from investment property	362	0	0	0	362
Disposals	0	-1,695	-89	0	-1,783
Transfers	0	-25	25	0	0
Effect of movements in exchange rates	0	-18	-2	0	-19
At 31 December 2008	**2,351**	**23,434**	**3,647**	**117**	**29,549**
Depreciation					
At 1 January 2007	64	6,418	1,387	0	7,869
Depreciation charge for the year	26	3,248	604	0	3,877
Disposals	0	-1,612	-755	0	-2,367
Effect of movements in exchange rates	0	-6	-3	0	-10
At 31 December 2007	**89**	**8,047**	**1,233**	**0**	**9,369**
Depreciation charge for the year	57	3,733	710	0	4,500
Disposals	0	-1,052	-97	0	-1,149
Transfers	-1	-20	20	0	-1
Effect of movements in exchange rates	0	2	0	0	2
At 31 December 2008	**145**	**10,710**	**1,865**	**0**	**12,721**
Carrying amount					
At 1 January 2007	804	9,956	1,302	2,210	14,295
At 31 December 2007	931	11,464	1,644	134	14,172
At 31 December 2008	**2,205**	**12,724**	**1,781**	**117**	**16,828**

Group entities have secured their liabilities by mortgaging immovable property. Further information on assets pledged as collateral is presented in note 32.

ASSETS ACQUIRED WITH FINANCE LEASE (INCLUDED IN PROPERTY, PLANT AND EQUIPMENT)

	EEK '000			*EUR '000*		
2008	**Plant and equipment**	**Other items of property, plant and equipment**	**Total**	**Plant and equipment**	**Other items of property, plant and equipment**	**Total**
Cost at 31 December 2008	253,328	10,844	264,172	16,191	693	16,884
Carrying amount at 31 December 2008	156,702	5,962	162,664	10,015	381	10,396

	EEK '000			*EUR '000*		
2007	**Plant and equipment**	**Other items of property, plant and equipment**	**Total**	**Plant and equipment**	**Other items of property, plant and equipment**	**Total**
Cost at 31 December 2007	239,991	10,230	250,221	15,338	654	15,992
Carrying amount at 31 December 2007	159,253	6,059	165,312	10,178	387	10,565

In 2008, the Group entered into new finance lease contracts of 76,674 thousand kroons (4,900 thousand euros) (2007: 85,969 thousand kroons / 5,494 thousand euros).

NOTE 15. INTANGIBLE ASSETS

EEK '000	*Note*	Goodwill	Software licences	Trademarks	Develop-ment costs	Total
Cost						
At 1 January 2007		155,681	1,667	10,000	0	167,348
Acquisitions through business combinations		106,635	92	0	0	106,727
Acquisitions		0	702	0	3,716	4,418
Disposals		0	-1,101	0	0	-1,101
Effect of movements in excha nge rates		0	-1	0	0	-1
At 31 December 2007		**262,316**	**1,360**	**10,000**	**3,716,**	**277,392**
Acquisitions through business combinations	*6*	10,983	220	0	0	11,203
Acquisition of minority interests	*6*	22,120	0	0	0	22,120
Acquisitions		0	122	0	929	1,051
Effect of movements in exchange rates		-115	-1	0	0	-116
At 31 December 2008		**295,304**	**1,702**	**10,000**	**4,645**	**311,651**
Amortisation						
At 1 January 2007		0	812	1,500	0	2,312
Amortisation charge for the year		0	452	2,000	0	2,452
Disposals		0	-595	0	0	-595
At 31 December 2007		**0**	**669**	**3,500**	**0**	**4,169**
Amortisation charge for the year		0	287	2,000	0	2,287
Effect of movements in exchange rates		0	7	0	0	7
At 31 December 2008		**0**	**963**	**5,500**	**0**	**6,463**
Carrying amount						
At 1 January 2007		155,681	855	8,500	0	165,036
At 31 December 2007		262,316	691	6,500	3,716	273,223
At 31 December 2008		**295,304**	**739**	**4,500**	**4,645**	**305,188**

NOTE 15. INTANGIBLE ASSETS (CONTINUATION)

EUR '000	*Note*	Goodwill	Software licences	Trademarks	Development costs	Total
Cost						
At 1 January 2007		9,950	107	639	0	10,695
Acquisitions through business combinations		6,815	6	0	0	6,821
Acquisitions		0	45	0	237	282
Disposals		0	-70	0	0	-70
Effect of movements in exchange rates		0	0	0	0	0
At 31 December 2007		**16,765**	**87**	**639**	**237**	**17,729**
Acquisitions through business combinations	*6*	702	14	0	0	716
Acquisition of minority interests	*6*	1,414	0	0	0	1,414
Acquisitions		0	8	0	59	67
Effect of movements in exchange rates		-7	0	0	0	-7
At 31 December 2008		**18,873**	**109**	**639**	**297**	**19,918**
Amortisation						
At 1 January 2007		0	52	96	0	148
Amortisation charge for the year		0	29	128	0	157
Disposals		0	-38	0	0	-38
At 31 December 2007		**0**	**43**	**224**	**0**	**266**
Amortisation charge for the year		0	18	128	0	146
Effect of movements in exchange rates		0	0	0	0	0
At 31 December 2008		**0**	**62**	**352**	**0**	**413**
Carrying amount						
At 1 January 2007		9,950	55	543	0	10,548
At 31 December 2007		16,765	44	415	237	17,462
At 31 December 2008		**18,873**	**47**	**288**	**297**	**19,505**

Development costs are related to the exploration of sand deposits with the view to extracting sand from the seabed. Preparations for exploration will continue in 2009.

Amortisation is recognised in the income statement in the cost of sales and in administrative expenses.

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

IMPAIRMENT TESTING FOR CASH-GENERATING UNITS CONTAINING GOODWILL

The Group has acquired goodwill on the acquisition of subsidiaries. Goodwill is related to the cash-generating capabilities of the subsidiaries. Therefore, for the purpose of impairment testing, goodwill is allocated to subsidiaries which represent the lowest level within the Group at which goodwill is monitored for internal management purposes (cash-generating units).

The value in use of each subsidiary was determined using the discounted cash flow method and compared with the carrying amount of the investment including goodwill. The tests indicated that goodwill was not impaired and there was no need for recognising an impairment loss because the recoverable amounts (value in use) of the subsidiaries exceeded the carrying amounts of the investments made.

THE CARRYING AMOUNTS OF GOODWILL ALLOCATED TO THE SUBSIDIARIES

		EEK '000		*EUR '000*	
At 31 December	Interest	2008	2007	2008	2007
Nordecon Ehitus AS	100%	85,255	85,255	5,449	5,449
Nordecon Infra AS	100%	43,135	43,135	2,757	2,757
Eurocon OÜ	63%	6,655	0	425	0
Eston Ehitus AS	52%	106,635	106,635	6,815	6,815
Mapri Projekt OÜ	52%	2,831	2,831	181	181
Subsidiaries of Nordecon Infra AS					
Kaurits OÜ	66%	31,636	24,460	2,022	1,563
DSN Ehitusmasinad OÜ	44%	8,289	0	530	0
Nordecon Infra SIA	56%	10,868	0	695	0
Total		**295,304**	**262,316**	**18,873**	**16,765**

General assumptions for determining value in use

The following are the management's key assumptions and estimates on the basis of which the recoverable amounts of the cash-generating units (including goodwill) were tested. Management's estimates are mainly based on historical experience but also consider the market situation prevailing at the date the impairment test was performed.

1. The forecast period was three years (2009-2011) plus the terminal year.
2. The cost of capital or discount rate was estimated on the basis of the actual debt/equity ratio at the end of 2008 in which the average cost of debt was 6 per cent and the expected rate of return on equity was 15 per cent.
3. Changes in subsequent periods' revenues were projected on the basis of the action plans of the cash-generating unit for subsequent periods, changes in the Group's operations and the market situation.
4. Subsequent periods' gross margins were projected on the basis of the action plans of the cash-generating unit for subsequent periods, changes in the Group's operations and the market situation.
5. Administrative expenses that affect operating cash flow were projected on the basis of their actual level for 2008. In view of the business of the cash-generating units, it was assumed that in 2009 the cost base can be reduced but that from 2010 administrative expenses will start increasing.
6. Changes in working capital investments were projected on the basis of revenue growth on the comparative period. Management estimated the proportion of revenue growth (15 per cent) that would be spent on involving additional working capital. According to management's assessment the rate approximates the cash-generating units' historical averages.
7. Changes in capital expenditures were projected by applying a suitable growth rate (10 per cent) to prior periods' average capital expenditure.

Nordecon Ehitus AS	Assumptions applied
Forecast period	2009-2011 + terminal year
Discount rate	12.0%, see also general assumptions
Revenue change*	2009: 75%, 2010-2011: 4% per year (on average), 3% in the terminal year
Gross margin	on the basis of 2008: a decline in 2009-2010, the terminal year will be based on the gross margin of 2011
Administrative expenses	See general assumptions (increase/decrease insignificant for result of operations)
Working capital	See general assumptions
Capital expenditures	See general assumptions

* The growth for 2009 results from the fact that the Group's Parent will discontinue its construction activities and will transfer all of its construction contracts in the residential and non-residential segment to Nordecon Ehitus AS.

Nordecon Infra AS	Assumptions applied
Forecast period	2009-2011 + terminal year
Discount rate	11.6%
Revenue change*	2009: 35%, 2010-2011: 4% per year (on average), 3% in the terminal year
Gross margin	on the basis of 2008: a decline in 2009-2010, 1% growth in subsequent periods
Administrative expenses	See general assumptions (increase/decrease insignificant for result of operations)
Working capital	See general assumptions
Capital expenditures	See general assumptions

* The growth for 2009 results from the fact that the Group's Parent will discontinue its construction activities and will transfer all of its construction contracts in the civil engineering segment to Nordecon Infra AS.

Eurocon OÜ	Assumptions applied
Forecast period	2009-2011 + terminal year
Discount rate	8.2%
Revenue change	2009: 1%, 2010-2011 4% pare year (on average), 3% in the terminal year
Gross margin	on the basis of 2008: stable in 2009-2010, 1% growth in subsequent periods
Administrative expenses	See general assumptions (increase/decrease insignificant for result of operations)
Working capital	See general assumptions
Capital expenditures	See general assumptions

Eston Ehitus AS	Assumptions applied
Forecast period	2009-2011 + terminal year
Discount rate	14.1%
Revenue change	2009: 3%, 2010-2011: 5% per year on average, 3% in the terminal year
Gross margin	on the basis of 2008: stable in 2009-2010, 1% growth in subsequent periods
Administrative expenses	See general assumptions (increase/decrease insignificant for result of operations)
Working capital	See general assumptions
Capital expenditures	See general assumptions

Mapri Projekt OÜ	Assumptions applied
Forecast period	2009-2011 + terminal year
Discount rate	14.2%
Revenue change	2009: a decrease of 10%, 2010-2011: 4% growth per year (on average), 3% growth in the terminal year
Gross margin	on the basis of 2008: stable in 2009-2010, 1% growth in subsequent periods
Administrative expenses	See general assumptions (increase/decrease insignificant for result of operations)
Working capital	See general assumptions
Capital expenditures	See general assumptions

Kaurits OÜ	Assumptions applied
Forecast period	2009-2011 + terminal year
Discount rate	9.2%
Revenue change	2009: a decrease of 7%, 2010-2011: 4% growth per year (on average), 3% growth in the terminal year
Gross margin	2009-2011 stable profitability
Administrative expenses	See general assumptions (increase/decrease insignificant for result of operations)
Working capital	See general assumptions
Capital expenditures	See general assumptions

DSN Ehitusmasinad OÜ	Assumptions applied
Forecast period	2009-2011 + terminal year
Discount rate	8.4%
Revenue change	2009: 5%, 2010-2011: 9% per year (on average), 3% in the terminal year
Gross margin	2009-2011 stable profitability
Administrative expenses	See general assumptions (increase/decrease insignificant for result of operations)
Working capital	See general assumptions
Capital expenditures	See general assumptions

Nordecon Infra SIA	Assumptions applied
Forecast period	2009-2011 + terminal year
Discount rate	7.8%
Revenue change	2009: 22%, 2010-2011: 5% per year (on average), 1% in the terminal year
Gross margin	2009-2011 stable profitability
Administrative expenses	See general assumptions (increase/decrease insignificant for result of operations)
Working capital	See general assumptions
Capital expenditures	See general assumptions

NOTE 16. INTEREST-BEARING LOANS AND BORROWINGS

SHORT-TERM LOANS AND BORROWINGS

		EEK '000		EEK '000	
As at 31 December	*Note*	2008	2007	2008	2007
Overdraft liability		7,823	2,964	500	189
Current portion of long-term loans and borrowings including		192,631	84,489	12,311	5,400
Bank loans		145,771	42,963	9,316	2,746
Finance lease liabilities	*17*	46,860	41,526	2,995	2,654
Short-term bank loans		35,494	29,596	2,268	1,892
Other short-term loans		0	18,807	0	1,202
Total short-term loans and borrowings		**235,948**	**135,856**	**15,080**	**8,683**

At the balance sheet date, the interest rate of the Group's overdraft liability was fixed at 5.24 per cent per year (31 December 2007: 5.25 per cent per year).

LONG-TERM LOANS AND BORROWINGS

		EEK '000		EUR '000	
As at 31 December	*Note*	2008	2007	2008	2007
Total long-term loans and borrowings		511,209	348,213	32,672	22,255
Including current portion		192,631	84,489	12,311	5,400
Including non-current portion including		**318,578**	**263,724**	**20,361**	**16,855**
Bank loans		220,156	179,860	14,071	11,495
Finance lease liabilities	*17*	98,422	83,864	6,290	5,360

DETAILS OF LOANS

			31 December 2008					
EEK '000	Base currency	Interest rate	Limit	Up to 1 year	1-2 years	3 and more years	Total loans	Due date
Investment loan	EUR	4.1%	141,700	20,220	21,060	44,780	86,060	31 July 2012
Investment loan	EUR	6.15%	187,235	26,748	26,748	113,678	167,174	11 January 2013
Investment loan	EUR	5.873%	140,000	84,686	0	0	84,686	21 March 2009
Investment loan	EUR	0.7%+6m EURIBOR	13,200	6,600	2,200	0	8,800	21 April 2010
Investment loan	EUR	1.5%+3m EURIBOR	5,192	1,024	872	1,744	3,640	30 April 2012
Investment loan	EUR	1.5%+3m EURIBOR	2,596	504	481	963	1,948	30 July 2012
Investment loan	EUR	1.5%+3m EURIBOR	1,263	237	259	518	1,014	30 November 2012
Investment loan	EUR	0.7%+6m EURIBOR	12,000	5,086	0	0	5,086	19 May 2009
Investment loan	EUR	6.19%	9,000	666	857	5,996	7,519	18 September 2017
Overdraft	EUR	5.24%	7,823	7,823	0	0	7,823	31 January 2009
Working capital loan	EUR	5.25%	15,004	15,004	0	0	15,004	30 June 2009
Working capital loan	EUR	2.2%+6m EURIBOR	3,000	0	0	0	0	18 February 2009
Working capital loan	EUR	1.5%+3m EURIBOR	22,263	9,225	0	0	9,225	26 March 2009
Working capital loan	EUR	6.3%	4,000	3,947	0	0	3,947	18 September 2009
Stock financing	EUR	5.79%	10,000	7,318	0	0	7,318	15 January 2009
Total loans				**189,088**	**52,477**	**167,679**	**409,244**	

DETAILS OF LOANS (CONTINUATION)

EUR '000	Base currency	Interest rate	Limit	31 December 2008 Up to 1 year	1-2 years	3 and more years	Total loans	Due date
Investment loan	EUR	4.1%	9,056	1,292	1,346	2,862	5,500	31 July 2012
Investment loan	EUR	6.15%	11,966	1,710	1,710	7,265	10,684	11 January 2013
Investment loan	EUR	5.873%	8,948	5,412	0	0	5,412	21 March 2009
Investment loan	EUR	0.7%+6m EURIBOR	844	422	141	0	562	21 April 2010
Investment loan	EUR	1.5%+3m EURIBOR	332	65	56	111	233	30 April 2012
Investment loan	EUR	1.5%+3m EURIBOR	166	32	31	62	124	30 July 2012
Investment loan	EUR	1.5%+3m EURIBOR	81	15	17	33	65	30 November 2012
Investment loan	EUR	0.7%+6m EURIBOR	767	325	0	0	325	19 May 2009
Investment loan	EUR	6.19%	575	43	55	383	481	18 September 2017
Overdraft	EUR	5.24%	500	500	0	0	500	31 January 2009
Working capital loan	EUR	5.25%	959	959	0	0	959	30 June 2009
Working capital loan	EUR	2.2%+6m EURIBOR	192	0	0	0	0	18 February 2009
Working capital loan	EUR	1.5%+3m EURIBOR	1,423	590	0	0	590	26 March 2009
Working capital loan	EUR	6.3%	256	252	0	0	252	18 September 2009
Stock financing	EUR	5.79%	639	468	0	0	468	15 January 2009
Total loans				**12,085**	**3,354**	**10,717**	**26,155**	

EEK '000	Base currency	Interest rate	Limit	31 December 2007 Up to 1 year	1-2 years	3 and more years	Total loans	Due date
Investment loan	EUR	4.1%	141,700	19,401	20,220	65,841	105,461	31 July 2012
Investment loan	EUR	3.3%	17,000	5,230	0	0	5,230	31 January 2008
Investment loan	EUR	5.22%	19,162	19,162	0	0	19,162	2008
Investment loan	EUR	5.38%	140,000	0	85,000	0	85,000	21 March 2009
Investment loan	EUR	0.7%+6m EURIBOR	13,200	4,400	6,600	2,200	13,200	21 April 2010
Investment loan	UAH	16.5%	12,450	9,707	0	0	9,707	2008
Investment loan	EUR	12.0%	4,659	4,659	0	0	4,659	2008
Working capital loan	EEK	6.05%	50,000	0	0	0	0	2008
Working capital loan	EEK	4.55%	3,000	0	0	0	0	2008
Working capital loan	EEK	5.25%	10,000	10,000	0	0	10,000	2008
Working capital loan	EUR	5.0%	9,959	9,959	0	0	9,959	2008
Working capital loan	EUR	5.0%	8,848	8,848	0	0	8,848	2008
Overdraft	EEK	5.25%	5,000	2,964	0	0	2,964	2008
Overdraft	EEK	3.9%	3,000	0	0	0	0	2008
Total loans				**94,330**	**111,820**	**68,041**	**274,191**	

EUR '000	Base currency	Interest rate	Limit	31 December 2007 Up to 1 year	1-2 years	3 and more years	Total loans	Due date
Investment loan	EUR	4.1%	9,056	1,240	1,292	4,208	6,740	31 July 2012
Investment loan	EUR	3.3%	1,086	334	0	0	334	31 January 2008
Investment loan	EUR	5.22%	1,225	1,225	0	0	1,225	2008
Investment loan	EUR	5.38%	8,948	0	5,432	0	5,432	21 March 2009
Investment loan	EUR	0.7%+6m EURIBOR	844	281	422	141	844	21 April 2010
Investment loan	UAH	16.5%	796	620	0	0	620	2008
Investment loan	EUR	12.0%	298	298	0	0	298	2008
Working capital loan	EEK	6.05%	3,196	0	0	0	0	2008
Working capital loan	EEK	4.55%	192	0	0	0	0	2008
Working capital loan	EEK	5.25%	639	639	0	0	639	2008
Working capital loan	EUR	5.0%	636	636	0	0	636	2008
Working capital loan	EUR	5.0%	565	565	0	0	565	2008
Overdraft	EEK	5.25%	320	189	0	0	189	2008
Overdraft	EEK	3.9%	192	0	0	0	0	2008
Total loans				**6,029**	**7,147**	**4,349**	**17,524**	

NOTE 17. FINANCE AND OPERATING LEASES

	Note	EEK '000 2008	EEK '000 2007	EUR '000 2008	EUR '000 2007
Finance lease liability at beginning of year		125,390	104,148	8,014	6,656
Addition	*14*	76,674	85,969	4,900	5,494
Principal payments made during the year		56,782	64,729	3,629	4,137
Finance lease liability at end of year		145,282	125,390	9,285	8,014
Payable in less than 1 year	*16*	46,860	41,526	2,995	2,654
Payable between 1 and 5 years	*16*	98,422	83,864	6,290	5,360
Base currency	EUR	142,841	121,917	9,129	7,792
Base currency	UAH	2,441	3,472	156	222
Interest rate in Estonia		3.5%-7.5%	3.6%-7.5%	3.5%-7.5%	3.6%-7.5%
Interest rate in Ukraine		10%-12%	12%	10%-12%	12%
Interest expense of the period		8,906	6,879	569	440
Settlement term		Monthly	Monthly	Monthly	Monthly

BASED ON EFFECTIVE CONTRACTS, FUTURE MINIMUM NON-CANCELLABLE FINANCE LEASE RENTALS ARE PAYABLE AS FOLLOWS:

EEK '000	2008		2007	
Payable in	Minimum lease rentals	Present value of minimum lease rentals	Minimum lease rentals	Present value of minimum lease rentals
Less than 1 year	54,522	46,861	47,256	41,527
Between 1 and 5 years	109,591	98,421	92,283	83,863
Total	**164,113**	**145,282**	**139,539**	**125,390**
Interest expense	-18,831	-	-14,149	-
Total	**145,282**	**145,282**	**125,390**	**125,390**

EUR '000	2008		2007	
Payable in	Minimum lease rentals	Present value of minimum lease rentals	Minimum lease rentals	Present value of minimum lease rentals
Less than 1 year	3,485	2,995	3,020	2,654
Between 1 and 5 years	7,004	6,290	5,898	5,360
Total	**10,489**	**9,285**	**8,918**	**8,014**
Interest expense	-1,204	-	-904	-
Total	**9,285**	**9,285**	**8,014**	**8,014**

OPERATING LEASE EXPENSES

OPERATING LEASE EXPENSES RECOGNISED UNDER EFFECTIVE CONTRACTS:

	EEK '000 2008	EEK '000 2007	EUR '000 2008	EUR '000 2007
Cars	16,824	15,075	1,075	963
Construction equipment	37,742	31,104	2,412	1,988
Premises	13,471	8,430	861	539
Software	8,389	5,699	536	364
Total operating lease rentals paid	**76,426**	**60,309**	**4,884**	**3,854**

ACCORDING TO EFFECTIVE CONTRACTS, FUTURE OPERATING LEASE RENTALS ARE PAYABLE AS FOLLOWS:

		EEK '000	*EUR '000*
2009	at least	30,994	1,981
2010	at least	28,620	1,829
2011	at least	25,019	1,599

Operating lease contracts may be cancelled without any penalty payments, provided notice is given in accordance with the terms and conditions of the contract.

NOTE 18. OTHER PAYABLES AND TAXES PAYABLE

OTHER PAYABLES

		EEK '000		EUR '000	
As at 31 December	*Note*	2008	2007	2008	2007
Accrued expenses related to contract work		128,358	158,254	8,204	10,114
Due to customers for contract work	*24*	122,418	88,987	7,824	5,687
Payables to employees		86,412	97,535	5,523	6,234
Advances for goods and services		78,632	24,969	5,026	1,596
Payables to companies of Nordic Contractors Group	*34*	2,341	8,584	150	549
Payables to associates	*34*	4	7,058	0	451
Accrued expenses		4,520	1,823	289	117
Miscellaneous payables		585	187,512	37	11,984
Total other payables		**423,270**	**574,722**	**27,052**	**36,731**

Accrued expenses related to contract work are related to the stage of completion of construction contracts and represent the cost of goods supplied and services rendered for the performance of construction contracts.

Payables to employees comprise remuneration and bonuses payable and accrued vacation pay liabilities.

Accrued expenses include mainly interest accrued on loan contracts.

TAXES PAYABLE

	EEK '000		EUR '000	
As at 31 December	2008	2007	2008	2007
Value added tax	29,229	12,976	1,868	829
Personal income tax	10,983	14,435	702	923
Social tax	19,304	24,483	1,234	1,565
Other taxes	6,244	1,883	399	120
Total taxes payable	**65,760**	**53,777**	**4,203**	**3,437**

NOTE 19. PROVISIONS

	EEK '000		EUR '000	
As at 31 December	2008	2007	2008	2007
Current provisions	11,600	12,458	741	796
Non-current provisions	6,630	4,328	424	277
Total provisions	**18,230**	**16,786**	**1,165**	**1,073**

In accordance with the contracts for construction services, the Group is liable for its work during the post-construction warranty period which usually lasts for two (in exceptional cases for three) years from the date the instrument of delivery and receipt is signed. Construction projects are established provisions on an individual basis. The provisions are recognised in the balance sheet and classified as current and non-current items based on the expiry of the warranty period.

Other provisions comprise a provision of 3,633 thousand kroons (232 thousand euros) made for restoring the negative equity of the associate Kastani Kinnisvara OÜ.

MOVEMENTS IN PROVISIONS

	EEK '000		EUR '000	
Warranties provisions	2008	2007	2008	2007
Opening balance	**16,786**	**6,396**	**1,073**	**409**
Acquired through business combinations	0	1,623	0	104
Provisions used and reversed during the year	-11,470	-3,708	-733	-237
Provisions created during the year	9,281	12,475	593	797
Closing balance	**14,597**	**16,786**	**933**	**1,073**
Including current portion	7,967	12,458	509	796
Including non-current portion	6,630	4,328	424	277

	EEK '000		EUR '000	
Other provisions	**2008**	**2007**	**2008**	**2007**
Opening balance	**0**	**0**	**0**	**0**
Provisions created during the year	3,633	0	232	0
Closing balance	**3,633**	**0**	**232**	**0**
Including current portion	3,633	0	232	0
Including non-current portion	0	0	0	0

NOTE 20. EQUITY AND RESERVES

SHARE CAPITAL

Number of shares, in thousands	**2008**	**2007**
At 1 January	30,757	15,378
Bonus issue	0	15,379
At 31 December	**30,757**	**30,757**

In 2007, outstanding share capital was increased by 153,783 thousand kroons (9,829 thousand euros) through a bonus issue of 15,379 thousand new ordinary registered shares with a par value of ten kroons (0.64 euros) each. The bonus issue was performed using share premium of 108,465 thousand kroons (6,932 thousand euros) and retained earnings of 45,318 thousand kroons (2,896 thousand euros). Each shareholder's stake in the Company's share capital increased in proportion to the par value of shares already held.

According to the Articles of Association the minimum and maximum authorised share capital of Nordecon International AS amount to 120,000 thousand kroons (7,669 thousand euros) and 480,000 thousand kroons (30,678 thousand euros) respectively. Share capital consists of ordinary shares with a par value of ten kroons (0.64 euros) each. The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at the general meeting of the Company.

At 31 December 2008, share capital stood at 307,567 thousand kroons (19,657 thousand euros). In 2008 share capital did not change.

Capital reserve

The Commercial Code requires companies to establish a capital reserve. Each year companies have to transfer to the capital reserve at least one twentieth of their profit for the period until the reserve amounts to one tenth of share capital. The capital reserve may be used for covering losses and increasing share capital but cannot be distributed to shareholders.

Translation reserve

The translation reserve comprises all foreign exchange differences arising on the translation of the financial statements of foreign operations, whose functional currency differs from the functional currency of the Parent company.

Dividends

DIVIDENDS DISTRIBUTED TO SHAREHOLDERS:

In 2007:	3.00 kroons per share	46,135 thousand kroons (15,378,364 shares)
	0.19 euros per share	2,948 thousand euros (15,378,364 shares)
In 2008:	3.00 kroons per share	92,271 thousand kroons (30,756,728 shares)
	0.19 euros per share	5,897 thousand euros (30,756,728 shares)

The amount of dividends reported in the statement of cash flows differs from the amount paid to the Parent company's shareholders by the portion of dividends paid to the subsidiaries' minority shareholders.

THE BOARD HAS MADE THE FOLLOWING DIVIDEND DISTRIBUTION PROPOSAL:

In 2009:	1.00 kroons per share	30,757 thousand kroons (30,756,728 shares)
	0.06 euros per share	1,966 thousand euros (30,756,728 shares)

The income tax payable on dividends is recognised in the income statement in the period in which the dividend is declared.

NOTE 21. EARNINGS PER SHARE

Basic earnings per share are calculated by dividing the profit for the period by the weighted average number of shares outstanding during the period. Diluted earnings per share are calculated by dividing the profit for the period 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 shares has been found considering the effect of the bonus issue. For comparability, the weighted average number of shares is the number of shares after the bonus issues, i.e. 30,756,728 shares.

	EEK ´000		*EUR ´000*	
	2008	**2007**	**2008**	**2007**
Profit for the period	145,580	267,482	9,304	17,095
Weighted average number of shares *(thousands of shares)*	30,757	30,757	30,757	30,757
Basic earnings per share	4.73	8.70	0.30	0.56
Diluted earnings per share	4.73	8.70	0.30	0.56

Nordecon International AS has not issued any share options or other convertible instruments. Therefore, diluted earnings per share equal basic earnings per share.

NOTE 22. SEGMENT REPORTING – BUSINESS SEGMENTS

BUSINESS SEGMENTS

	Residential and non-residential		Civil engineering		Eliminations		Consolidated	
EEK ´000	**2008**	**2007**	**2008**	**2007**	**2008**	**2007**	**2008**	**2007**
Construction contract revenue	2,304,473	1,952,260	1,421,108	1,772,693	0	0	3,725,581	3,724,953
Other revenue	83,859	14,497	58,477	12,578	0	0	142,336	27,075
Total revenue from external customers	2,388,332	1,966,757	1,479,585	1,785,271	0	0	3,867,917	3,752,028
Inter-segment revenue	79,925	160,133	68,788	84,315	-148,713	-244,448	0	0
Total revenue	**2,468,257**	**2,126,890**	**1,548,373**	**1,869,586**	**-148,713**	**-244,448**	**3,867,917**	**3,752,028**
Segment result	307,740	232,961	50,171	267,016	0	0	357,911	499,977
Unallocated expenses	0	0	0	0	0	0	-149,431	-192,513
Operating profit	0	0	0	0	0	0	208,480	307,464
Net finance income	0	0	0	0	0	0	28,858	1,458
Share of profit / loss of equity accounted investees	-24,770	-4,031	17	856	0	0	-24,753	-3,175
Income tax expense	0	0	0	0	0	0	-41,269	-15,976
Profit for the period							**171,316**	**289,771**

BUSINESS SEGMENTS (CONTINUATION)

EEK ´000	Residential and non-residential 2008	Residential and non-residential 2007	Civil engineering 2008	Civil engineering 2007	Eliminations 2008	Eliminations 2007	Consolidated 2008	Consolidated 2007
Segment assets	1,493,204	1,183,240	868,116	963,508	0	0	2,361,320	2,146,748
Investments in associates	5,927	34,625	0	10,545	0	0	5,927	45,170
Total assets							**2,367,247**	**2,191,918**
Segment liabilities	527,248	409,767	407,564	556,192	0	0	934,812	965,959
Warranties liabilities	12,824	11,755	1,773	5,031	0	0	14,597	16,786
Unallocated liabilities	0	0	0	0	0	0	554,526	399,580
Total liabilities							**1,503,935**	**1,382,325**
Cash flows from operating activities	227,142	70,953	77,867	76,333	0	0	305,009	147,286
Cash flows from investing activities	-146,623	12,054	-10,017	-1,312	0	0,	-156,640	10,742
Cash flows from financing activities	-31,384	27,901	-56,853	-105,797	0	0	-88,237	-77,896
Net cash flow	**49,135**	**110,908**	**10,997**	**-30,776**	**0**	**0**	**60,132**	**80,132**
Capital expenditure	12,079	130,133	138,215	92,154	0	0	150,294	222,287
Depreciation and amortisation expense	10,258	9,293	62,433	53,818	0	0	72,691	63,111

EUR ´000	Residential and non-residential 2008	Residential and non-residential 2007	Civil engineering 2008	Civil engineering 2007	Eliminations 2008	Eliminations 2007	Consolidated 2008	Consolidated 2007
Construction contract revenue	147,283	124,772	90,825	113,296	0	0	238,108	238,068
Other revenue	5,360	927	3,737	804	0	0	9,097	1,730
Total revenue from external customers	152,642	125,699	94,563	114,100	0	0	247,205	239,798
Inter-segment revenue	5,108	10,234	4,396	5,389	-9,504	-15,623	0	0
Total revenue	**157,750**	**135,933**	**98,959**	**119,488**	**-9,504**	**-15,623**	**247,205**	**239,798**
Segment result	19,668	14,889	3,207	17,065	0	0	22,875	31,954
Unallocated expenses	0	0	0	0	0	0	-9,550	-12,304
Operating profit	0	0	0	0	0	0	13,342	19,651
Net finance income	0	0	0	0	0	0	1,844	93
Share of profit / loss of equity accounted investees	-1,583	-258	1	55	0	0	-1,582	-203
Income tax expense	0	0	0	0	0	0	-2,638	-1,021
Profit for the period							**10,949**	**18,520**
Segment assets	95,433	75,623	55,483	61,579	0	0	150,916	137,202
Investments in associates	379	2,213	0	674	0	0	379	2,887
Total assets							**151,295**	**140,089**
Segment liabilities	33,697	26,189	26,048	35,547	0	0	59,745	61,736
Warranties liabilities	820	751	113	322	0	0	933	1,073
Unallocated liabilities	0	0	0	0	0	0	35,441	25,538
Total liabilities							**96,119**	**88,347**
Cash flows from operating activities	14,517	4,535	4,977	4,879	0	0	19,494	9,413
Cash flows from investing activities	-9,371	770	-640	-84	0	0	-10,011	687
Cash flows from financing activities	-2,006	1,783	-3,634	-6,762	0	0	-5,639	-4,978
Net cash flow	**3,140**	**7,088**	**703**	**-1,967**	**0**	**0**	**3,843**	**5,121**
Capital expenditure	772	8,317	8,834	5,890	0	0	9,606	14,207
Depreciation and amortisation expense	**656**	**594**	**3,990**	**3,440**	**0**	**0**	**4,646**	**4,034**

The prices applied in inter-segment transactions did not differ significantly from market prices.

NOTE 23. SEGMENT REPORTING – GEOGRAPHICAL SEGMENTS

	EEK '000		EUR '000	
Revenue	**2008**	**2007**	**2008**	**2007**
Estonia	3,107,253	3,303,651	198,590	211,142
Ukraine	441,037	435,001	28,187	27,802
Latvia	229,757	0	14,684	0
Lithuania	91,081	18,255	5,821	1,167
Eliminations	-1,211	-4,879	-77	-312
Total revenue	**3,867,917**	**3,752,028**	**247,205**	**239,798**
Assets based on geographical location				
Estonia	2,024,863	2,043,752	129,412	130,620
Ukraine	238,432	240,626	15,239	15,379
Latvia	229,886	0	14,692	0
Lithuania	16,002	11,024	1,023	705
Eliminations	-141,936	-103,484	-9,071	-6,614
Total assets	**2,367,247**	**2,191,918**	**151,295**	**140,089**

	EEK '000				
Capital expenditures	Estonia	Latvia	Ukraine	Lithuania	Total
Property, plant and equipment	93,691	19,905	2,940	0	116,536
Intangible assets	33,758	0	0	0	33,758
Total capital expenditures in 2008	**127,449**	**19,905**	**2,940**	**0**	**150,294**

	EEK '000				
Capital expenditures	Estonia	Latvia	Ukraine	Lithuania	Total
Property, plant and equipment	101,434	0	7,768	122	109,324
Intangible assets	111,134	0	11	0	111,145
Investment property	1,818	0	0	0	1,818
Total capital expenditures in 2007	**214,386**	**0**	**7,779**	**122**	**222,287**

	EUR '000				
Capital expenditures	Estonia	Latvia	Ukraine	Lithuania	Total
Property, plant and equipment	5,988	1,272	188	0	7,448
Intangible assets	2,158	0	0	0	2,158
Total capital expenditures in 2008	**8,145**	**1,272**	**188**	**0**	**9,606**

	EUR '000				
Capital expenditures	Estonia	Latvia	Ukraine	Lithuania	Total
Property, plant and equipment	6,483	0	496	8	6,987
Intangible assets	7,103	0	1	0	7,103
Investment property	116	0	0	0	116
Total capital expenditures in 2007	**13,702**	**0**	**497**	**8**	**14,207**

NOTE 24. CONSTRUCTION CONTRACTS

THE GROUP'S ACTIVE CONSTRUCTION CONTRACTS

As at 31 December	*EEK '000*		*EUR '000*	
Active construction contracts from date of commencement	**2008**	**2007**	**2008**	**2007**
Costs under stage of completion method	4,169,789	3,822,420	266,498	244,297
Estimated profit	463,529	481,456	29,625	30,771
Revenue under stage of completion method	4,633,318	4,303,876	296,123	275,068
Progress billings	4,579,406	4,286,484	292,677	273,956
Adjustments	**-53,912**	**-17,392**	**-3,446**	**-1,112**
Including due from customers (note 8)	176,330	106,379	11,270	6,799
Including due to customers (note 18)	122,418	88,987	7,824	5,687

At the balance sheet date, retentions under construction contracts totalled 27,897 thousand kroons (1,783 thousand euros). The corresponding figure for 2007 was 42,872 thousand kroons (2,740 thousand euros).

Sensitivity analysis for stage of completion

A 5 per cent increase / decrease in the stage of completion of all active construction contracts would increase / reduce revenue for the period by approximately 150,000 thousand kroons (9,587 thousand euros) and gross profit by approximately 10,000 thousand kroons (639 thousand euros).

NOTE 25. COST OF SALES

	EEK '000		*EUR '000*	
	2008	**2007**	**2008**	**2007**
Cost of materials, goods and services	3,041,487	2,831,824	194,386	180,987
Personnel expenses	381,360	341,037	24,373	21,796
Other expenses	17,942	19,467	1,147	1,244
Depreciation and amortisation expense	69,217	59,723	4,424	3,817
Total cost of sales	**3,510,006**	**3,252,051**	**224,330**	**207,844**

NOTE 26. ADMINISTRATIVE EXPENSES

	EEK '000		*EUR '000*	
	2008	**2007**	**2008**	**2007**
Personnel expenses	117,074	120,382	7,482	7,694
Cost of materials, goods and services	50,913	42,072	3,254	2,689
Other expenses	11,075	7,720	708	493
Depreciation and amortisation expense	3,464	3,388	221	217
Total administrative expenses	**182,526**	**173,562**	**11,666**	**11,093**

NOTE 27. OTHER OPERATING INCOME AND EXPENSES

OTHER OPERATING INCOME

	EEK '000		*EUR '000*	
	2008	**2007**	**2008**	**2007**
Gains on sale of property, plant and equipment	4,858	8,250	310	527
Gains on sale and revaluation of real estate	256	5,476	16	350
Foreign exchange gains	37,235	142	2,380	9
Other income	21,598	2,543	1,380	163
Total other operating income	**63,947**	**16,411**	**4,087**	**1,049**

NOTE 27. OTHER OPERATING INCOME AND EXPENSES (CONTINUATION)

OTHER OPERATING EXPENSES

	EEK '000		EUR '000	
	2008	2007	2008	2007
Write-off of property, plant and equipment and intangible assets	789	7,827	50	500
Membership fees	60	0	4	0
Losses on the revaluation of investment property	11,530	0	737	0
Foreign exchange losses	1,530	1,461	98	93
Losses from doubtful and irrecoverable receivables	-9,031	17,422	-577	1,113
Other expenses	17,967	3,546	1,148	227
Total other operating expenses	**22,845**	**30,256**	**1,460**	**1,934**

NOTE 28. FINANCE INCOME AND EXPENSES

FINANCE INCOME

	EEK '000		EUR '000	
	2008	2007	2008	2007
Gain on sale of shares in subsidiaries	163	8,832	10	564
Gain on sale of shares in associates	66,859	8,292	4,274	530
Interest income on loans	9,413	2,670	602	171
Finance income on other investments	5,233	6,713	334	429
Foreign exchange gains	648	689	41	44
Other finance income	14,561	4,290	931	274
Total finance income	**96,877**	**31,486**	**6,192**	**2,012**

FINANCE EXPENSES

	EEK '000		EUR '000	
	2008	2007	2008	2007
Interest expense	37,879	17,697	2,421	1,131
Other finance expenses	422	1,180	27	75
Foreign exchange losses	29,718	11,151	1,899	713
Total finance expenses	**68,019**	**30,028**	**4,347**	**1,919**

NOTE 29. INCOME TAX EXPENSE

	EEK '000		EUR '000	
	2008	2007	2008	2007
Profit before tax	**212,585**	**305,747**	**13,587**	**19,541**
Income tax (on profit) using the Estonian tax rate*	0	0	0	0
Income tax paid on dividends in Estonia	29,737	16,397	1,901	1,048
Effect of tax rates in foreign jurisdictions	11,532	-421	737	-27
Total income tax expense	**41,269**	**15,976**	**2,638**	**1,021**

* In Estonia income tax is not levied on corporate earnings (profit). Instead, income tax is levied on dividends distributed.

NOTE 30. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

CREDIT RISK

The carrying amount of financial assets represents the Group's maximum credit risk exposure. The maximum exposure to credit risk at the reporting date:

		EEK '000		*EUR '000*	
		Carrying amount			
	Note	2008	2007	2008	2007
Cash and cash equivalents	*7*	296,184	236,112	18,930	15,090
Trade receivables	*8*	473,935	511,819	30,290	32,711
Receivables from companies of Nordic Contractors Group	*34*	52,726	53,379	3,370	3,412
Receivables from associates	*34*	23,824	26,681	1,523	1,706
Loans to associates	*34*	116,262	62,893	7,430	4,020
Retentions receivable	*8*	27,897	42,872	1,783	2,740
Other loans and receivables	*12*	51,381	11,551	3,284	738
Total		**1,042,209**	**945,307**	**66,610**	**60,417**

Maximum exposure to credit risk for financial assets (excluding cash and cash equivalents) at the reporting date by geographical region:

	EEK '000		*EUR '000*	
	2008	2007	2008	2007
Estonia	479,670	629,621	30,657	40,240
Ukraine	196,077	68,841	12,532	4,400
Latvia	55,457	0	3,544	0
Lithuania	14,821	10,733	947	686
Total	**746,025**	**709,195**	**47,680**	**45,326**

The ageing of trade receivables at the reporting date and associated impairment losses included:

	EEK '000				*EUR '000*			
As at 31 December	2008		2007		2008		2007	
Past due	Trade receiv-ables	Impair-ment loss	Trade receiv-ables	Impair-ment loss	Trade receiv-ables	Impair-ment loss	Trade receiv-ables	Impair-ment loss
Not past due	301,683	0	381,982	0	19,281	0	24,413	0
0-30 days	72,793	0	84,497	0	4,652	0	5,400	0
31-180 days	90,324	2,441	29,217	2,060	5,773	156	1,867	132
Over 180 days*	9,135	7,330	16,123	15,241	584	468	1,030	974
Total	**473,935**	**9,771**	**511,819**	**17,301**	**30,290**	**624**	**32,711**	**1,106**

* Receivables that more than 180 days overdue are not written down if they are being settled on the basis of settlement schedules that are being adhered to or if the receivables are secured with additional collateral.

LIQUIDITY RISK

Payments to be made for the satisfaction of contractual financial liabilities as at the reporting date:

EEK '000	31 December 2008					
Financial liability	Carrying amount	Contractual cash flows	Less than 1 year	1-2 years	2-5 years	Over 5 years
Overdraft	7,823	7,888	7,888	0	0	0
Bank loans	401,421	456,526	204,502	123,189	124,725	4,110
Finance lease liabilities	145,282	164,113	54,522	46,534	62,121	937
Trade payables	439,615	439,615	437,081	2,534	0	0
Other liabilities	75,101	75,101	75,101	0	0	0
Total	**1,069,242**	**1,143,243**	**779,094**	**172,257**	**186,846**	**5,047**

EUR '000			31 December 2008			
Financial liability	Carrying amount	Contractual cash flows	Less than 1 year	1-2 years	2-5 years	Over 5 years
Overdraft	500	504	504	0	0	0
Bank loans	25,655	29,177	13,070	7,873	7,971	263
Finance lease liabilities	9,285	10,489	3,485	2,974	3,970	60
Trade payables	28,097	28,097	27,935	162	0	0
Other liabilities	4,800	4,800	4,800	0	0	0
Total	**68,337**	**73,067**	**49,794**	**11,009**	**11,941**	**323**

EEK '000			31 December 2007			
Financial liability	Carrying amount	Contractual cash flows	Less than 1 year	1-2 years	2-5 years	Over 5 years
Overdraft	2,963	2,963	2,963	0	0	0
Bank loans	252,420	274,077	77,352	122,998	73,727	0
Finance lease liabilities	125,390	138,141	47,174	53,735	37,231	0
Other loans	18,807	19,277	19,277	0	0	0
Trade payables	336,468	336,468	335,754	714	0	0
Other liabilities	260,461	260,461	260,461	0	0	0
Total	**996,509**	**1,031,387**	**742,981**	**177,447**	**110,959**	**0**

EUR '000			31 December 2007			
Financial liability	Carrying amount	Contractual cash flows	Less than 1 year	1-2 years	2-5 years	Over 5 years
Overdraft	189	189	189	0	0	0
Bank loans	16,133	17,517	4,944	7,861	4,712	0
Finance lease liabilities	8,014	8,829	3,015	3,434	2,380	0
Other loans	1,202	1,232	1,232	0	0	0
Trade payables	21,504	21,504	21,459	46	0	0
Other liabilities	16,646	16,646	16,646	0	0	0
Total	**63,688**	**65,917**	**47,485**	**11,341**	**7,092**	**0**

CURRENCY RISK

THE GROUP'S CURRENCY RISK EXPOSURES FOR CASH AND CASH EQUIVALENTS AND RECEIVABLES AND LIABILITIES (AMOUNTS IN RELEVANT CURRENCIES):

'000	2008					2007				
	EEK	EUR	LVL	LTL	UAH	EEK	EUR	USD	LTL	UAH
Cash and cash equivalents	287,074	0	287	4	1,885	233,750	80	69	18	170
Short-term receivables	682,222	2,911	346	772	20,917	791,160	121	0	2,386	48,124
Long-term receivables	33,840	5,034	0	0	0	45,200	1,701	644	5	2,709
Total	**1,003,136**	**7,945**	**633**	**776**	**22,802**	**1,070,110**	**1,902**	**713**	**2,409**	**51,003**
Current liabilities	753,913	1,007	3,192	775	12,850	942,374	3,019	0	2,351	25,949
Non-current liabilities	2,525	20,269	0	0	1,025	87,675	11,156	0	0	1,046
Total	**756,438**	**21,276**	**3,192**	**775**	**13,875**	**1,030,049**	**14,175**	**0**	**2,351**	**26,995**
Net exposure	**246,698**	**-13,331**	**-2,559**	**1**	**8,927**	**40,061**	**-12,273**	**713**	**58**	**24,008**

THE FOLLOWING EXCHANGE RATES APPLIED AT THE BALANCE SHEET DATE:

	Date	Euro (EUR)	Latvian lats (LVL)	Lithuanian litas (LTL)	Ukrainian hryvna(UAH)
1 kroon (EEK)	31 December 2008	0.0639	0.0452	0.2207	0.7112

A 10 per cent weakening / strengthening of the Estonian kroon against the above currencies at 31 December 2008 would have reduced / increased profit through the remeasurement of cash and cash equivalents and receivables and liabilities denominated in foreign currency by 25,258 thousand kroons (1,614 thousand euros). The analysis assumes that all other variables remain constant.

INTEREST RATE RISK

AT THE BALANCE SHEET DATE, THE INTEREST RATE PROFILE OF THE GROUP'S INTEREST-BEARING FINANCIAL INSTRUMENTS WAS AS FOLLOWS:

	Carrying amount			
	EEK '000		*EUR '000*	
	2008	2007	2008	2007
Fixed rate instruments				
Financial assets	157,115	69,224	10,041	4,424
Financial liabilities	379,531	163,036	24,256	10,420
Net position	-222,416	-93,812	-14,215	-5,996
Floating rate instruments				
Financial assets	296,184	236,112	18,930	15,090
Financial liabilities (inc. finance lease liabilities)	174,995	236,544	11,184	15,118
Net position	**121,189**	**-432**	**7,746**	**-28**

An increase / a decrease of 100 basis points in the variable part of the interest rate (EURIBOR) of floating rate instruments at the balance sheet date would affect interest-related cash flow and would increase / reduce profit for the next financial year by 1,655 thousand kroons (106 thousand euros). The analysis assumes that all other variables remain constant.

FAIR VALUE

AT THE REPORTING DATE, THE FAIR VALUES AND CARRYING AMOUNTS OF THE GROUP'S FINANCIAL INSTRUMENTS WERE AS FOLLOWS:

	EEK '000		*EUR '000*		*EEK '000*		*EUR '000*	
	2008		2008		2007		2007	
	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
Cash and cash equivalents	296,184	296,184	18,930	18,930	236,112	236,112	15,090	15,090
Trade receivables	473,935	473,935	30,290	30,290	511,819	511,819	32,711	32,711
Receivables from related parties	76,550	76,550	4,892	4,892	80,059	80,059	5,117	5,117
Retentions receivable	27,897	27,897	1,783	1,783	42,872	42,872	2,740	2,740
Loans to associates	116,262	116,987	7,430	7,477	62,893	61,846	4,020	3,953
Other loans granted	40,853	40,853	2,611	2,611	6,331	6,331	405	405
Overdraft	-7,823	-7,823	-500	-500	-2,963	-2,963	-189	-189
Bank loans	-401,421	-398,864	-25,655	-25,492	-252,420	-244,424	-16,133	-15,622
Finance lease liabilities	-145,282	-145,233	-9,285	-9,282	-125,390	-125,363	-8,014	-8,012
Other loans received	0	0	0	0	-18,807	-18,807	-1,202	-1,202
Trade payables	-439,615	-439,615	-28,097	-28,097	-336,468	-336,468	-21,504	-21,504
Payables to related parties	-2,345	-2,345	-150	-150	-15,642	-15,642	-1,000	-1,000
Other liabilities	-72,756	-72,756	-4,650	-4,650	-341,409	-341,409	-21,820	-21,820
Unrealised gain		**3,331**		**213**		**6,976**		**446**

Management has determined that the carrying amounts of the Group's financial current assets and liabilities do not differ significantly from their fair values because they are expected to be settled in the short term. The carrying values of floating rate interest-bearing instruments are also deemed to approximate their fair value as these instruments re-price to market interest rates at least annually.

Non-current fixed interest rate financial assets and liabilities were discounted by comparing the average market interest rate with the fixed interest rate and the changes in EURIBOR. The following interest rates were applied:

	2008	2007
	Average market interest rate	
Loans in Estonia	6.16%	6.4%
Loans in Ukraine	12.6%	13.7%
Finance leases	5.8% - 8%	5% - 8%

NOTE 31. CONTINGENT ASSETS AND LIABILITIES

CONTINGENT INCOME TAX LIABILITY

	EEK '000		*EUR '000*	
As at 31 December	**2008**	**2007**	**2008**	**2007**
Retained earnings	426,995	397,810	27,290	25,425
Contingent income tax liability	89,669	83,540	5,731	5,339
The amount that could be distributed as the net dividend	337,326	314,270	21,559	20,086

The maximum income tax liability has been calculated on the assumption that the net dividend and the arising income tax expense may not exceed the distributable profits as of 31 December.

PENDING LITIGATION

Action brought by the Group

1. In June 2008 Nordecon International AS brought an action against Horizon Tselluloosi ja Paberi AS for the settlement of an original liability and accrued interest of 1,827 thousand kroons (117 thousand euros). The action has been secured with a judicial mortgage created for the benefit of Nordecon International AS in an amount of 2,868 thousand kroons (183 thousand euros). The next hearing of the matter has been scheduled for April 2009.

2. The Group's subsidiary Nordecon Infra AS has brought an action against Betoneks Ehitus OÜ (bankrupt) for the settlement of 2,754 thousand kroons (176 thousand euros) in the bankruptcy proceedings of Betoneks Ehitus OÜ. The claim has been recognised in full. Betoneks Ehitus OÜ (bankrupt) does not have any assets. Therefore, the claim will probably remain unsatisfied.

EARLIER LITIGATIONS RESOLVED IN 2009

1. In January 2008 Nordecon International AS (at the date of filing Eesti Ehitus AS) brought an action against Grove Invest OÜ for settlement of an original liability and accrued interest of 5,070 thousand kroons (324 thousand euros). The claim was based on a contract for services concluded between Eesti Ehitus AS and Grove Invest OÜ.

   Harju County court satisfied the claim of Eesti Ehitus AS against Grove Invest OÜ for settlement of the original liability and accrued interest in an amount of 10,070 thousand kroons (644 thousand euros). In October 2008 Eesti Ehitus AS and Grove Invest OÜ OÜ reached an agreement under which Grove Invest OÜ paid Eesti Ehitus AS 10,000 thousand kroons (639 thousand euros) and the proceedings were terminated.

2. In January 2008 Nordecon International AS (at the date of filing Eesti Ehitus AS) brought an action against Baltic Panel Group OÜ (a subsidiary of Grove Invest OÜ) for settlement of an original liability and interest on arrears of 12,382 thousand kroons (791 thousand euros). The action was brought in Harju County Court and the claim was based on a contract for services between Eesti Ehitus AS and Baltic Panel Group OÜ.

   Baltic Panel Group OÜ was declared bankrupt in May 2008 (before the end of the lawsuit). In October 2008 Eesti Ehitus AS and Grove Invest OÜ reached an agreement under which Grove Invest OÜ acquired the claims of Eesti Ehitus AS against Baltic Panel Group OÜ for 10,000 thousand kroons (639 thousand euros) and the proceedings were terminated.

The original amounts due from Grove Invest OÜ and Baltic Panel Group OÜ totalled 17,452 thousand kroons (1,115 thousand euros). Under the agreements between the parties, the Group was paid a total of 20,000 thousand kroons (1,278 thousand euros), which covered also interest on arrears of 2,548 thousand kroons (163 thousand euros).

NOTE 32. ASSETS PLEDGED AS COLLATERAL

Loans, guarantees and other obligations are secured with the following commercial pledge agreements:

- Nordecon International AS has pledged its movable property to the extent of 330,000 thousand kroons (21,091 thousand euros) to Swedbank AS (commercial pledges).
- Nordecon Infra AS has pledged its movable property to the extent of 115,000 thousand kroons (7,350 thousand euros) to SEB Pank AS. Nordecon Infra AS' Latvian subsidiary Nordecon Infra SIA has pledged its movable property to the extent of

278,717 thousand kroons (17,813 thousand euros) to Swedbank SIA and to the extent of 18,866 thousand kroons (1,206 thousand euros) to Swedbank SIA Lizings (commercial pledges).

- Nordecon Ehitus AS has pledged its movable property to the extent of 50,000 thousand kroons (3,196 thousand euros) to Swedbank AS. The loan taken from Danske Bank A/S Estonian branch is secured with a mortgage of an immovable property located in the centre of Tartu. The carrying amount of the property is 141,000 thousand kroons (9,012 thousand kroons).
- Mapri Projekt OÜ has pledged its movable property to the extent of 12,000 thousand kroons (767 thousand euros).
- Eston Ehitus AS has mortgaged an immovable property for the benefit of SEB Pank AS. The carrying amount of the property is 5,563 thousand kroons (356 thousand euros). In addition, Eston Ehitus AS has encumbered its movable property with a commercial pledge. Investment loans are secured with mortgages of properties located in the city of Pärnu. The total carrying amount of the properties is 13,200 thousand kroons (844 thousand euros).

Nordecon International AS has pledged its shares in the following subsidiaries:

- An investment loan from Swedbank AS is secured with the ordinary shares in Nordecon Ehitus AS (100%) and Nordecon Infra AS (100%).
- An investment loan from Danske Bank A/S Estonian branch is secured with the ordinary shares in Eston Ehitus AS (52%).

NOTE 33. OFF-BALANCE SHEET LIABILITIES

Off-balance sheet liabilities include bank guarantees and surety agreements. At the balance sheet date, the Group's off-balance sheet liabilities totalled 643,637 thousand kroons (41,136 thousand euros). At the end of 2007, the corresponding figure was 514,669 thousand kroons (32 893 thousand euros).

The realisation probability of the guarantees and surety commitments is low. Therefore, they have not been recognised as liabilities in the balance sheet.

BANK GUARANTEES RECEIVED

- Swedbank AS has issued Group companies guarantees of 273,213 thousand kroons (17,461 thousand euros).
- SEB Pank AS has issued Group companies guarantees of 216,510 thousand kroons (13,837 thousand euros).

SURETY AGREEMENTS

- Nordecon Infra AS stands surety to guarantees of 22,000 thousand kroons (1,406 thousand euros) (total limit) issued to its subsidiaries Järva Teed AS and Hiiu Teed OÜ by SEB Pank AS and guarantees and an overdraft facility of 112,121 thousand kroons (7,166 thousand euros) provided to the associate Nordecon Infra SIA by Swedbank SIA.
- Eston Ehitus AS stands surety for a loan of up to 10,170 thousand kroons (650 thousand euros) taken by the associate Crislivinca OÜ from Nordea Bank and a loan of 9,623 thousand kroons (615 thousand euros) taken by the associate Kalda Kodu OÜ from Nordea Bank.

NOTE 34. TRANSACTIONS WITH RELATED PARTIES

For the purposes of these consolidated financial statements, parties are related if one controls the other or exerts significant influence (holds more than 20 per cent of the voting power) on the other's operating decisions. Related parties include:

- Nordic Contractors AS (the parent of Nordecon International AS) and its shareholders.
- Other companies of Nordic Contractors AS Group.
- Associates of Nordecon International AS.
- Members of the board and council of Nordecon International AS, their close family members and companies related to them.
- Individual shareholders with significant influence.

DURING THE REPORTING PERIOD, GROUP ENTITIES PERFORMED PURCHASE AND SALES TRANSACTIONS WITH RELATED PARTIES IN THE FOLLOWING VOLUMES:

	EEK '000				*EUR '000*			
	2008		2007		2008		2007	
Volume of transactions performed	**Purchases**	**Sales**	**Purchases**	**Sales**	**Purchases**	**Sales**	**Purchases**	**Sales**
Nordic Contractors AS	13,518	4,296	21,880	400	864	275	1,398	26
Subsidiaries of Nordic Contractors	3,012	218,849	2,805	322,156	193	13,987	179	20,590
Associates	0	761	31	82,569	0	49	2	5,277
Companies related to a member of the council	2,244	6,185	1,677	17,123	143	395	107	1,094
Total	**18,774**	**230,091**	**26,393**	**422,248**	**1,200**	**14,705**	**1,687**	**26,987**

	EEK '000				*EUR '000*			
	2008		2007		2008		2007	
Substance of transactions performed	**Purchases**	**Sales**	**Purchases**	**Sales**	**Purchases**	**Sales**	**Purchases**	**Sales**
Construction contracts	0	219,610	0	415,837	0	14,036	0	26,577
Purchase and sale of goods	0	0	0	630	0	0	0	40
Lease and other services	18,774	10,481	26,393	5,781	1,200	670	1,687	369
Total	**18,774**	**230,091**	**26,393**	**422,248**	**1,200**	**14,705**	**1,687**	**26,987**

AT PERIOD-END, RECEIVABLES FROM AND LIABILITIES TO RELATED PARTIES BROKE DOWN AS FOLLOWS:

EEK '000, as at 31 December	Receivable	Payable	Receivable	Payable
Nordic Contractors AS	1,173	1,378	35	2,341
Subsidiaries of Nordic Contractors AS	52,726	961	48,848	6,243
Companies related to a member of the council	236	0	-180	0
Associates – receivables	23,824	4	26,681	7,058
Associates – loans and interest	116,262	0	62,893	0
Total	**194,221**	**2,343**	**138,277**	**15,642**

EUR '000, as at 31 December	Receivable	Payable	Receivable	Payable
Nordic Contractors AS	75	88	2	150
Subsidiaries of Nordic Contractors AS	3,370	61	3,122	399
Companies related to a member of the council	15	0	-12	0
Associates – receivables	1,523	0	1,706	451
Associates – loans and interest	7,430	0	4,020	0
Total	**12,413**	**150**	**8,839**	**1,000**

Receivables from associates of 23,824 thousand kroons (1,523 thousand euros) are mainly related to construction work. At the end of 2007, the corresponding figure was 26,681 thousand kroons (1,705 thousand euros).

LOANS TO ASSOCIATES:

			2008		2007	
EEK '000	Interest rate	Currency	Loan liability	Incl. accrued interest	Loan liability	Incl. accrued interest
Abagars SIA	6.0%	EUR	0	0	5,102	102
Kastani Kinnisvara OÜ	10.0%	EEK	14,793	1,293	10,300	600
Crislivinca OÜ	6.0%	EEK	5,412	244	2,639	21
Sepavara OÜ	6.0%	EEK	1,099	99	894	44
Kalda Kodu OÜ	6.0%	EEK	6,235	704	4,486	442
Technopolis-2 TOV	9.8%	EUR	9,954	1,481	6,854	737
Passage Theatre TOV	9.8%	EUR	0	0	3,923	12
Baltic Development TOV	9.8%	EUR	0	0	12,338	370
V.I.Center TOV	6.0%	EUR	78,769	3,052	16,357	148
Total			**116,262**	**6,873**	**62,893**	**2,476**
Including current portion			11,247	2,774	8,341	714
Including non-current portion			105,015	4,099	54,552	1,762

EUR '000	Interest rate	Currency	2008 Loan liability	2008 Incl. accrued interest	2007 Loan liability	2007 Incl. accrued interest
Abagars SIA	6.0%	EUR	0	0	326	7
Kastani Kinnisvara OÜ	10.0%	EEK	945	83	658	38
Crislivinca OÜ	6.0%	EEK	346	16	169	1
Sepavara OÜ	6.0%	EEK	70	6	57	3
Kalda Kodu OÜ	6.0%	EEK	398	45	287	28
Technopolis-2 TOV	9.8%	EUR	640	95	438	47
Passage Theatre TOV	9.8%	EUR	0	0	251	1
Baltic Development TOV	9.8%	EUR	0	0	789	24
V.I.Center TOV	6.0%	EUR	5,034	195	1,045	9
Total			**7,431**	**439**	**4,020**	**158**
Including current portion			719	177	533	46
Including non-current portion			6,712	262	3,487	113

Remunerations to members of the board and council

In 2008, the remuneration of the members of the board of Nordecon International AS totalled 14,514 thousand kroons (928 thousand euros). In 2007, the corresponding figure was 14,659 thousand kroons (936 thousand euros). In 2008 the board had, on average, five members. In 2007, the number was four.

Members of the board are entitled to termination benefits equal to their past six to twelve months' average service fee, depending on the reason for termination. Any such payments require the approval of the council.

In 2008, the remuneration of the members of the council of Nordecon International AS totalled 1,443 thousand kroons (92 thousand euros). In 2007, the corresponding figure was 1,080 thousand kroons (69 thousand euros).

NOTE 35. EVENTS AFTER THE BALANCE SHEET DATE

Subsequent events that do not affect the valuation of assets and liabilities at the reporting date but which will have a significant effect on the financial information of the next financial year are the following:

- On 24 November 2008 the shareholders of the Group's associate Kastani Kinnisvara OÜ decided to increase the share capital of Kastani Kinnisvara OÜ with additional contributions (see also note 19) by issuing two new shares with a par value of 1000 kroons (64 euros) and share premium of 5,999,000 kroons (383 406 euros). Mapri Projekt OÜ acquired one new share on 19 January 2009.
- Business combinations, acquisitions of interests in joint ventures and transactions with minority interests after the balance sheet date:

Business combinations

Acquisition of Kalda Kodu OÜ

On 9 January 2009, Nordecon International AS (at the date of the transaction Eesti Ehitus AS) acquired a 56 per cent stake in Kalda Kodu OÜ, an entity registered in Estonia for 1 kroon (0.06 euros). On the purchase price allocation, no changes were made to the carrying amounts of the acquired entity's assets and liabilities. As a result of the transaction, negative goodwill of 22 thousand kroons (1.4 thousand euros) was recognised as revenue.

The remaining 44 per cent of Kalda Kodu OÜ belongs to the Group's subsidiary Eston Ehitus AS. Taking into account the minority interest in Eston Ehitus AS (48%), after the transaction, the Group's interest in Kalda Kodu OÜ is 78.9%.

Acquisition of LCB SIA

In January, the Group's Latvian subsidiary Nordecon Infra SIA (at the date of the transaction Abagars SIA) acquired a 75 per cent stake in the Latvian company LCB SIA for 23,470 thousand kroons (1,500 thousand euros). On the purchase price allocation, no changes were made to the carrying amounts of the acquired entity's assets and liabilities. As a result of the transaction, goodwill of 21,060 thousand kroons (1,346 thousand euros) was recognised.

Acquisition of interests in joint ventures

<u>Acquisition of an interest in Unigate OÜ</u>
In January, the Group's Latvian subsidiary Nordecon Infra SIA (at the date of the transaction Abagars SIA) acquired a 75 per cent stake in the Latvian company LCB SIA for 23,470 thousand kroons (1,500 thousand euros). On the purchase price allocation, no changes were made to the carrying amounts of the acquired entity's assets and liabilities. As a result of the transaction, goodwill of 21,060 thousand kroons (1,346 thousand euros) was recognised.

Transactions with minority interests

On 13 February 2009 Kaurits OÜ (indirect interest of Nordecon International AS 66%), a subsidiary of Group company Nordecon Infra AS acquired the remaining 34 per cent of the shares in DSN Ehitusmasinad OÜ, becoming the entity's sole shareholder for 700 thousand kroons (45 thousand euros). On the purchase price allocation, no changes were made to the carrying amounts of the acquired entity's assets and liabilities. As a result of the transaction, goodwill of 277 thousand kroons (18 thousand euros) was recognised.

- On 13 February 2009 Kaurits OÜ (indirect interest of Nordecon International AS 66%), a subsidiary of Group company Nordecon Infra AS acquired the remaining 34 per cent of the shares in DSN Ehitusmasinad OÜ, becoming the entity's sole shareholder for 700 thousand kroons (45 thousand euros). On the purchase price allocation, no changes were made to the carrying amounts of the acquired entity's assets and liabilities. As a result of the transaction, goodwill of 277 thousand kroons (18 thousand euros) was recognised.

The strategy approved by the Parent company's council in March 2009 for the next five years does not foresee any changes in the Group's business activities.

NOTE 36. THE PARENT COMPANY'S UNCONSOLIDATED FINANCIAL STATEMENTS

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

BALANCE SHEET (UNCONSOLIDATED)

	EEK '000		*EUR '000*	
As at 31 December	**2008**	**2007**	**2008**	**2007**
ASSETS				
Current assets				
Cash and cash equivalents	86,294	129,543	5,515	8,279
Trade receivables	82,441	141,711	5,269	9,057
Other receivables and prepayments	87,985	82,579	5,623	5,278
Inventories	18,007	12,118	1,151	774
Non-current assets held for sale	0	198	0	13
Total current assets	**274,727**	**366,149**	**17,558**	**23,401**
Non-current assets				
Investments in subsidiaries	439,717	431,774	28,103	27,595
Long-term receivables	127,366	103,656	8,140	6,625
Investment property	0	4,984	0	319
Property, plant and equipment	9,844	5,572	629	356
Intangible assets	4,571	6,557	292	419
Total non-current assets	**581,498**	**552,543**	**37,164**	**35,314**
TOTAL ASSETS	856,225	918,692	54,723	58,715
LIABILITIES				
Current liabilities				
Interest-bearing loans and borrowings	55,361	25,157,	3,538	1,608
Trade payables	144,457	107,266	9,232	6,856
Taxes payable	9,097	15,079	581	964
Other payables	91,192	349,321	5,828	22,326
Provisions	816	505	52	32
Total current liabilities	**300,923**	**497,328**	**19,232**	**31,785**
Non-current liabilities				
Interest-bearing loans and borrowings	206,922	86,766	13,225	5,545
Other liabilities	2,472	714	158	46
Provisions	2,608	2,554	167	163
Total non-current liabilities	**212,002**	**90,034**	**13,549**	**5,754**
TOTAL LIABILITIES	512,925	587,362	32,782	37,539
EQUITY				
Share capital	307,567	307,567	19,657	19,657
Share premium	0	0	0	0
Statutory capital reserve	20,432	7,058	1,306	451
Retained earnings	15,301	16,705	978	1,068
Total equity	343,300	331,330	21,941	21,176
TOTAL LIABILITIES AND EQUITY	856,225	918,692	54,723	58,715

INCOME STATEMENT (UNCONSOLIDATED)

	EEK '000		EUR '000	
	2008	2007 Restated*	2008	2007 Restated*
Revenue	1,032,884	1,227,675	66,013	78,463
Cost of sales	922,448	1,069,686	58,955	68,365
Gross profit	**110,436**	**157,989**	**7,058**	**10,097**
Distribution expenses	5,182	3,044	331	195
Administrative expenses	45,240	47,477	2,891	3,034
Other operating income	4,329	3,255	277	208
Other operating expenses	-14,370	18,125	-918	1,158
Operating profit	**78,712**	**92,598**	**5,031**	**5,918**
Finance income	58,010	38,413	3,708	2,455
Finance expenses	16,666	5,075	1,065	324
Net finance income	**41,344**	**33,338**	**2,642**	**2,131**
Profit before income tax	**120,057**	**125,936**	**7,673**	**8,049**
Income tax expense	15,817	5,468	1,011	349
Profit for the period	**104,240**	**120,468**	**6,662**	**7,699**

* Distribution expenses have been presented separately since 2008. For comparability, the presentation of the income statement for 2007 has been adjusted accordingly:

	EEK '000			EUR '000		
	2007	Restated 2007	Change	2007	Restated 2007	Change
Distribution expenses	0	3,044	3,044	0	195	195
Administrative expenses	49,090	47,477	-1,613	3,137	3,034	-103
Other operating income	3,255	3,255	0	208	208	0
Other operating expenses	19,556	18,125	-1,431	1,250	1,158	-91

STATEMENT OF CASH FLOWS (UNCONSOLIDATED)

	EEK '000		EUR '000	
	2008	2007	2008	2007
Cash flows from operating activities				
Cash receipts from customers	1,367,638	1,370,001	87,408	87,559
Cash paid to suppliers	-1,157,034	-1,192,844	-73,948	-76,237
Cash paid to and for employees	-109,591	-87,615	-7,004	-5,600
Income taxes paid	-15,817	-5,468	-1,011	-349
Net cash from operating activities	**85,196**	**84,074**	**5,445**	**5,373**
Cash flows from investing activities				
Acquisition of property, plant and equipment	-578	-995	-37	-64
Proceeds from sale of property, plant and equipment	0	134	0	9
Acquisition of subsidiaries	-194,678	-1,116	-12,442	-71
Proceeds from sale of subsidiaries	0	627	0	40
Loans granted	-70,657	-38,389	-4,516	-2,454
Repayment of loans granted	43,500	50,300	2,780	3,215
Dividends received	32,769	26,748	2,094	1,710
Interest received	25,701	10,428	1,643	666
Net cash used in / from investing activities	**-163,943**	**47,737**	**-10,478**	**3,051**
Cash flows from financing activities				
Proceeds from loans received	187,235	0	11,966	0
Repayment of loans received	-44,697	-18,638	-2,857	-1,191
Dividends paid	-92,270	-46,135	-5,897	-2,949
Payment of finance lease liabilities	-585	-486	-37	-31
Interest paid	-14,185	-5,375	-907	-344
Net cash from / used in financing activities	**35,498**	**-70,634**	**2,269**	**-4,514**
Net cash flow	**-43,249**	**61,177**	**-2,764**	**3,910**
Cash and cash equivalents at beginning of period	129,543	68,366	8,279	4,369
Decrease / increase in cash and cash equivalents	-43,249	61,177	-2,764	3,910
Cash and cash equivalents at end of period	**86,294**	**129,543**	**5,515**	**8,279**

STATEMENT OF CHANGES IN EQUITY (UNCONSOLIDATED)

EEK '000	Share capital	Share premium	Statutory capital reserve	Retained earnings	Total
Balance at 31 December 2006	**153,784**	**108,465**	**3,000**	**-8,252**	**256,997**
Dividends declared	0	0	0	-46,135	-46,135
Transfer to capital reserve	0		4,058	-4,058	0
Bonus issue	45,318	0	0	-45,318	0
Issue of share capital	108,465	-108,465	0	0	0
Profit for the period	0	0	0	120,468	120,468
Balance at 31 December 2007	**307,567**	**0**	**7,058**	**16,705**	**331,330**
Carrying amount of interests under control and significant influence	-	-	-	-	-431,774
Interests under control and significant influence under the equity method	-	-	-	-	504,979
Adjusted unconsolidated equity at 31 December 2007	**-**	**-**	**-**	**-**	**404,535**
Balance at 31 December 2007	**307,567**	**0**	**7,058**	**16,705**	**331,330**
Dividends declared	0	0	0	-92,270	-92,270
Transfer to capital reserve	0	0	13,374	-13,374	0
Profit for the period	0	0	0	104,240	104,240
Balance at 31 December 2008	**307,567**	**0**	**20,432**	**15,301**	**343,300**
Carrying amount of interests under control and significant influence	-	-	-	-	-439,717
Interests under control and significant influence under the equity method	-	-	-	-	549,898
Adjusted unconsolidated equity at 31 December 2008	**-**	**-**	**-**	**-**	**453,481**

EUR'000	Share capital	Share premium	Statutory capital reserve	Retained earnings	Total
Balance at 31 December 2006	**9,829**	**6,932**	**192**	**-527**	**16,425**
Dividends declared	0	0	0	-2,949	-2,949
Transfer to capital reserve	0	0	259	-259	0
Bonus issue	2,896	0	0	-2,896	0
Issue of share capital	6,932	-6,932	0	0	0
Profit for the period	0	0	0	7,699	7,699
Balance at 31 December 2007	**19,657**	**0**	**451**	**1,068**	**21,176**
Carrying amount of interests under control and significant influence	-	-	-	-	-27,595
Interests under control and significant influence under the equity method	-	-	-	-	32,274
Adjusted unconsolidated equity at 31 December 2007	**-**	**-**	**-**	**-**	**25,854**
Balance at 31 December 2007	**19,657**	**0**	**451**	**1,068**	**21,176**
Dividends declared	0	0	0	-5,897	-5,897
Transfer to capital reserve	0	0	855	-855	0
Profit for the period	0	0	0	6,662	6,662
Balance at 31 December 2008	**19,657**	**0**	**1,306**	**978**	**21,941**
Carrying amount of interests under control and significant influence	-	-	-	-	-28,103
Interests under control and significant influence under the equity method	-	-	-	-	35,145
Adjusted unconsolidated equity at 31 December 2008	**-**	**-**	**-**	**-**	**28,983**

SIGNATURES

The board of Nordecon International AS has prepared management's discussion and analysis, the consolidated financial statements and the profit allocation proposal for 2008.

BOARD OF DIRECTORS

Jaano Vink	*Chairman of the Board*	6 April 2009
Sulev Luiga	*Member of the Board*	6 April 2009
Priit Tiru	*Member of the Board*	6 April 2009

The council has reviewed the annual report prepared by the board, including management's discussion and analysis and the consolidated financial statements as well as the appended auditor's report, profit allocation proposal, list of shareholders and the list of the Parent company's business activities, and has approved its presentation to the general meeting of the shareholders.

COUNCIL

Toomas Luman	*Chairman of the Council*	15 April 2009
Alar Kroodo	*Vice-Chairman of the Council*	15 April 2009
Ain Tromp	*Member of the Council*	15 April 2009
Andri Hõbemägi	*Member of the Council*	15 April 2009
Tiina Mõis	*Member of the Council*	15 April 2009
Meelis Milder	*Member of the Council*	15 April 2009

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INDEPENDENT AUDITOR'S REPORT

To the shareholders of AS Nordecon International

We have audited the accompanying consolidated financial statements of AS Nordecon International, which comprise the consolidated balance sheet as at 31 December 2008, and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of AS Nordecon International as of 31 December 2008, 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.

Tallinn, 6 April 2009

KPMG Baltics AS

Andres Root
Authorized Public Accountant

Eeli Lääne
Authorized Public Accountant

PROFIT ALLOCATION PROPOSAL

The board proposes that the general meeting of Nordecon International AS allocate the profit as follows:

	EEK '000	EUR '000
Retained earnings of prior periods	281,415	17,986
Net profit for 2008	145,580	9,304
Total distributable profits at 31 December 2008	**426,995**	**27,290**
Allocations:		
Dividend distribution	30,757	**1,966**
Transfer to capital reserves	5,212	333
Retained earnings after allocations	**391,026**	**24,991**

Jaano Vink	*Chairman of the Board*	6 April 2009
Sulev Luiga	*Member of the Board*	6 April 2009
Priit Tiru	*Member of the Board*	6 April 2009

LIST OF SHAREHOLDERS WHOSE INTEREST EXCEEDS 10 PER CENT

At the date of the general meeting of the shareholders of Nordecon International AS that approved the annual report (14 May 2009), the list of owners of registered shares who held over 10 per cent of the votes determined by shares was the following:

1. AS NORDIC CONTRACTORS

Registration number:	10359185
Address:	Liivalaia 13/15, Tallinn
Type of share:	ordinary share
Number of shares:	18,807,464
Par value of a share:	10 kroons
Time of acquisition of the shares:	2002, 2005, 2006

BUSINESS ACTIVITIES (PARENT COMPANY)

	EEK '000		EUR '000	
Classification by the Estonian Classification of Economic Activities (EMTAK)	**2008**	**2007**	**2008**	**2007**
4120 Construction of residential and non-residential buildings	733,916	661,659	46,906	42,288
4213 Construction of bridges and tunnels	0	18,757	0	1,199
4291 Construction of water projects	276,413	443,694	17,666	28,357
4299 Construction of other civil engineering projects	20,528	81,908	1,312	5,235
Total construction activities	**1,030,857**	**1,206,018**	**65,884**	**77,079**
Other revenue	2,027	21,657	130	1,384
Total revenue	**1,032,884**	**1,227,675**	**66,013**	**78,463**

ACTIVITIES PLANNED FOR THE PERIOD 1 JANUARY – 31 DECEMBER 2009

Classification by EMTAK

4120 Construction of residential and non-residential buildings

4213 Construction of bridges and tunnels

4291 Construction of water projects

4299 Construction of other civil engineering projects

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