



## Annual report 2010

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<b>Core activities</b>	Construction of residential and non-residential buildings (EMTAK 4120) Construction of roads and motorways (EMTAK 4211) Road maintenance (EMTAK 4211) Construction of utility projects for fluids (EMTAK 4221) Construction of water projects (EMTAK 4291) Construction of other civil engineering projects (EMTAK 4299)
<b>Financial year</b>	1 January 2010 – 31 December 2010
<b>Council</b>	Toomas Luman (chairman), Alar Kroodo, Ain Tromp, Andri Hõbemägi, Tiina Mõis, Meelis Milder
<b>Board</b>	Jaano Vink (chairman), Avo Ambur, Marko Raudsik, Erkki Suurorg
<b>Auditor</b>	KPMG Baltics OÜ

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## ABOUT THE GROUP

Founded as a construction company in 1989, Nordecon AS (previous names AS Eesti Ehitus and Nordecon International AS) has grown into one of the leading construction groups in Estonia that is a strong partner in all segments of the construction market.

For years, the Group's operating strategy has been underpinned by a consistent focus on general contracting and project management and a policy of maintaining a fair balance between buildings and infrastructure construction. Over the years we have extended our offering with activities that support the core business such as road maintenance, concrete works and other services that provide added value, improve the Group's operating efficiency and help manage our business risks.

Nordecon's specialists offer the customers complete high quality solutions in the construction of commercial, industrial and public buildings as well as infrastructure – roads, landfills, external networks and port facilities. In addition, the Group is involved in the construction of concrete structures, renting out heavy construction equipment and road maintenance.

Besides Estonia, Group entities currently operate in Ukraine and Finland and, on a project basis, in Belarus.

Nordecon is a member of the Estonian Association of Construction Entrepreneurs and the Estonian Chamber of Commerce and Industry. The Group's parent and subsidiaries are internationally certified, holding the international quality management certificate ISO 9001, the international environment management certificate ISO 14001 and the international occupational health and safety certificate OHSAS 18001.

Nordecon AS has been listed on the NASDAQ OMX Tallinn Stock Exchange since 18 May 2006.

## 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.

## 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.

## Message from the chairman of the council

Economics textbooks usually tell you to do the right things, not to do things right. However, the past couple of years have proven the need for revising the maxim – you have to distinguish the important from the unimportant, right from wrong and then do the right and important things the right way. In various spheres of life in Estonia, particularly the seemingly unstoppable construction sector, there used to be a tendency to do attractive things which unfortunately were neither right nor important.

Nordecon construction group was no exception. In 2010 we had to spend a lot of energy and effort liquidating the consequences of some wrong economic decisions made in previous periods. Naturally, this was painful for many because the activities undertaken to maintain our competitiveness, which extended from a further reduction of the cost base to the write-down of trade receivables, affected many aspects of the Group. But it was necessary so we could say today that the company is back on its feet and standing strong.

We are confident that we have come through the crisis intact. The main thing is to draw the right conclusions and turn them into action in an environment of economic recovery. Today we define ourselves as a company that delivers construction services on time and to generally accepted quality standards while relying only on those resources that we ourselves have planned. In other words, we can and may not rely on any unexpected positive developments resulting from or triggered by the customer, commodity prices, subcontractors or someone or something else. In 2011 we will direct our main efforts at planning both the delivery date and the required resources efficiently and accurately before we sign the contract. So that the customer will receive a service at the desired price and quality and we can improve our competitiveness and market position.

**Toomas Luman**

Chairman of the Council

## Group Chief Executive's statement

Anyone with a slightest knowledge of economic developments and events is going to remember 2010 as a year when the construction sector hit the bottom of the severest crisis of the past decades. A year that highlighted the critical aspects of the prevailing circumstances, the competitive environment as well as the market players' competence and capabilities. Several years of severe market contraction induced behaviour which, on occasion, was extremely aggressive as competitors struggled to secure sustainable business and the right to await better times. Unfortunately, many companies were forced to leave the scene, making room for more flexible rivals that were better able to adapt and change.

Despite the hardship, already the first half of the year brought distinct signs that the prolonged downturn, which had emerged in 2008, would have to recede and make way for more positive developments. A rise in input prices that hit practically every segment put an end to further volume contraction but also heightened the risks of those that had undertaken large long-lasting contracts on the assumption that construction prices would continue to slide.

Fiscal 2010 was also the hardest year in Nordecon's history – we had to acknowledge the occurrence of several negative events and to make some tough decisions to remain competitive and maintain our position in our home market, Estonia. At the beginning of the year we discontinued our unprofitable Latvian operations and in the last months of the year we were forced to accept that despite months of effort we alone would not be able to save the Pärnu Keskus development project, which had run into difficulty at the inception of the crisis. Both resulted in major losses but also taught us a lesson whose impact is hard to underestimate as we look forward and make plans for a new rise.

However, regardless of setbacks in certain areas, Nordecon succeeded in maintaining a stable contract portfolio and in the second half of the year we were able to stop margin decline in our core operations. We delivered a number of important projects according to plan and to our usual high quality standard, the more complex ones including the Mäo junction on the Tallinn-Tartu road, Science Centre AHHAA in Tartu and phase I of the Koidula railway border station.

Adverse circumstances required all our entities to make considerable efforts to improve cost efficiency and I am pleased to report that we were able to meet the austere and significantly cut budget set at the beginning of the year. Activities were reorganized so that the pace of cost-cutting exceeded that of revenue decline, an accomplishment that is a tribute to all our people. It has helped us retain our competitiveness and cope in a market ravaged by exceptionally low margins and small business volumes.

In September 2010, an extraordinary general meeting approved the merger of the Group's parent and the two largest subsidiaries Nordecon Infra AS and Nordecon Ehitus AS into a single entity, Nordecon AS, a transaction proposed by the Group's board and council. Accordingly, in the last days of December we completed the restructuring process that had been in progress for somewhat more than a year and today we are confident that a more compact and flexible construction group is ready to seize the opportunities offered by the gradual recovery of the construction market which will hopefully emerge already in 2011.

**Jaano Vink**

Chairman of the Board

## Management's discussion and analysis

### Group strategy and objectives for 2010-2013

In 2010 construction market volumes continued to shrink across all of the Group's geographies. In addition, the Group had to face a sharp fall in margins both in and outside Estonia. Due to external and internal factors and changed circumstances, it became clear that achieving the strategic objectives set in 2009 by 2013 would be unrealistic. The ultimate goal of the strategy was to expand the Group's international reach, i.e. to grow significantly outside Estonia. However, in some of the selected foreign markets the downturn was even steeper and faster than in Estonia. A good example is the Latvian infrastructure construction market which the Group decided to exit by divesting the local subsidiary. In a situation where construction prices were tumbling and fierce competition lowered the profit margins, it was also important to be cautious about swift growth because that might have caused the Group to take unjustified risks.

In light of the above, in July 2010 the board of Nordecon AS<sup>1</sup> submitted to the council a proposal for revising the Group's strategy. The council approved the suggested changes on 10 September 2010.

In the board's opinion, in forthcoming years the Group should focus on its core business in its main market, Estonia, where Nordecon is represented in practically all construction segments and can rely on extensive local experience. In order to adapt to changes in the external environment, the Group should continue restructuring its operations, improving profitability by effective cost management, and creating opportunities for successfully entering the growth phase of the construction market (also in its target foreign markets).

According to the board's proposal, until 2013 (inclusive) the Group will focus on achieving the above. The strategy for the next three years supports the Group's recovery from the slump and prepares ground for seizing the opportunities provided by the accelerating growth of the construction market that is anticipated to emerge at the end of 2011 and in 2012.

#### Nordecon Group's main strategic objectives until 2013

- To complete the significant adjustments to the Group's structure and governance that were launched in 2009 in order to secure profitable and rapid growth in the rise phase of the market
- To operate in Latvia, Lithuania and Belarus on a project basis, assuming that this is profitable
- To continue buildings construction operations in Ukraine in line with the current strategy
- To maintain preparedness for re-launching more active operations in foreign markets (as a general contractor) as soon as the situation in the construction market has become sufficiently supportive
- To operate in the Finnish concrete works market (as a contractor) through a subsidiary in order to support development of the business line
- To become the leading construction group in Estonia that earns half of its revenue from infrastructure and the other half from buildings construction by the end of 2013

**The key theme of the strategy for 2010-2013 is "To respond to market changes swiftly and flexibly and to enter the next economic growth cycle successfully"**

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<sup>1</sup> On 19 November 2010, having considered the changes in the Group's structure, an extraordinary general meeting decided to change the name of the Group's parent from Nordecon International AS to Nordecon AS (for further information, see the chapter *Organisation of the Group's Estonian and foreign operations in 2010*). The name was changed as of 1 January 2011. In this annual report, the new business name is consistently used unless a reference to the previous name is required by the context.

## Organisation of the Group's Estonian and foreign operations in 2010

### The Group's Estonian operations

In Estonia, the Group continued to operate in the buildings and infrastructure construction segments, being active in almost all market sub-segments. Buildings and infrastructure construction operations were conducted through the Nordecon Ehitus and Nordecon Infra subgroups respectively. Allocation of functions to the two subgroups started in 2008 and by 2010 it was complete, covering all stages of the construction activity (from sales to warranty operations).

As regards other core business lines, the Group continued to provide concrete services (Nordecon Betoon OÜ), renting out heavy construction machinery and equipment (Kaurits OÜ) and providing regional road maintenance services in the Keila maintenance area of Harju county, in Järva county and in Hiiu county (Nordecon Infra AS, Järva Teed AS and Hiiu Teed OÜ respectively). No new operating segments were created.

Until its merger with the subsidiaries Nordecon Ehitus AS and Nordecon Infra AS, the Group's parent Nordecon AS (formerly Nordecon International AS) acted mostly as a holding company, providing the Group with strategic management and intra-Group support services.

### Changes in the Group's management principles and structure

On 10 September 2010, the council of Nordecon AS approved the board's proposal for signing a merger agreement between the Group's parent, Nordecon AS, and the subsidiaries Nordecon Infra AS and Nordecon Ehitus AS.

The board made the proposal based on its vision of the changes required in the Group's strategy for 2010-2013 (for further information, see the chapter *Group strategy and objectives for 2010-2013*). According to the board's vision, continuously declining business volumes had triggered the need for redesigning and streamlining the Group's management model. The merger of the three companies will create a shorter and more flexible chain of command where the board and extended management of the Group's parent will incorporate within a single legal person all persons and structural units accountable for managing the Group's general and core activities as well as intra-Group support services. According to estimates, the change in management principles will yield additional fixed cost savings of over 15.6 million kroons (1.0 million euros) in 2011.

The companies signed the merger agreement on 4 October 2010. The transaction was approved by the shareholders of Nordecon AS at an extraordinary general meeting held on 19 November 2010. The merger was registered at the Commercial Registry on 31 December 2010. After the registration, Nordecon Infra AS and Nordecon Ehitus AS were deemed dissolved and Nordecon AS became their legal successor. Nordecon AS holds the rights to all the references of the two dissolved companies as well as its own prior period references. The merger did not change the business profile of the Nordecon construction group that continued operating in all its previous operating segments.

As from 2011 Nordecon Infra AS' and Nordecon Ehitus AS' investments in their stand-alone subsidiaries are held by the combined entity Nordecon AS.

### Changes on the board of Nordecon AS

At the beginning of 2010, the board of the Group's parent, Nordecon AS, which at the time was a holding company, had two members - Jaano Vink as chairman and Priit Tiru as a member. In connection with a decline in operating volumes, in November the council recalled from the board Priit Tiru.

Through the merger of the three entities at the end of 2010, the Group's parent became again an actively competing construction company and, accordingly, from 2011 the board of Nordecon AS has had four members – Jaano Vink (chairman), Avo Ambur, Marko Raudsik and Erkki Suurorg. Further details on the board members are presented in the chapter *Members of the council and board of Nordecon AS*.

### The Group's foreign operations

#### Latvia

The Group entered the Latvian market at the beginning of 2007 when the acquisition of the subsidiary OÜ Kaurits provided it with a stake in a Latvian associate, SIA Abagars (later renamed Nordecon Infra SIA). In order to avoid subsequent conflicts of interest, the Group acquired the majority shareholding in the Latvian entity in May 2008.



The core business of the Latvian company was construction of water and wastewater networks. Business volumes in Latvia grew swiftly and the company secured and delivered several large public procurement projects. However, over-rapid growth resulted in an accumulation of operational risks which in combination with drastic changes in the economic environment caused the company to incur losses in the second half of 2009. An overall deterioration in the Latvian economy caused difficulties in collecting payments from customers including counterparties related to the state and local government.

As a result, in February 2010 the board of Nordecon AS resolved to divest the Group's entire 56% interest in Nordecon Infra SIA because it was evident that in the next few years the entity would be operating with a loss (see note 7 to the consolidated financial statements). After the transaction, the Group does not have any ownership interests in companies domiciled in Latvia.

Since the divestment of the stake in the Latvian subsidiary, the Group has not conducted any construction operations in Latvia.

#### **Lithuania**

In 2010 the Group's Lithuanian subsidiary Nordecon Statyba UAB did not conduct any business operations. Suspension of the Lithuanian operations did not cause any major costs for the Group. The decision does not change the Group's strategic objectives in the Lithuanian construction market and does not imply an intention to sell or liquidate the subsidiary.

#### **Ukraine**

In Ukraine, the Group continued operating in the buildings segment with a focus on private sector customers. The local construction market was in a deep slump and practically no new contracts were secured. The Ukrainian subsidiaries were extensively restructured and adapted to the market already in 2009. In 2010 they operated with minimal costs and human resources but maintained readiness to re-launch project management services as soon as relevant opportunities and needs should arise. The year did not bring any changes to development operations either – the two projects in which the Group has an interest remained conserved as they have been for the past two years.

#### **Belarus**

The Group has a contract with a Finnish food industry company for the construction of a factory in Belarus. The project is performed through the Group's wholly-held Belarusian subsidiary Eurocon Stroi IOOO whose establishment was finalised in January 2010. In 2010, this was the Group's only project in Belarus. The Group used a similar strategy, i.e. contracts tendered by well-known Nordic or Baltic companies, for penetrating the Ukrainian market more than twelve years ago. The Group used the past year and the project to get to know the market. According to the Group's development strategy, penetrating the Belarusian market more extensively in 2011 is not a priority. It is probable that after the completion of the active project, the Group will discontinue its operations in Belarus.

#### **Finland**

The Group's subsidiary Nordecon Betoon OÜ has been seeking opportunities for winning concrete works contracts in Finland since the end of 2009 so as to support development of the business line within the Group. For this, in the first half of 2010 a Finnish subsidiary, Estcon OY, was acquired from the parent. In 2010 the Group was involved in five contracts in Finland (through Estcon OY as well as Nordecon Betoon OÜ).

## **Performance by geographical market**

In 2010, Estonian revenues accounted for around 94% of the Group's total revenue. In 2009 the contribution of the Estonian market was 86%. The growth in Estonian revenues results mainly from a rapid decrease in revenues generated by the Group's foreign operations. The decision to withdraw from Latvia for the time being had the strongest one-off impact on the contribution of foreign markets (see also the chapter *Organisation of the Group's Estonian and foreign operations in 2010*). The proportions of Ukrainian and Lithuanian revenues have remained stable compared with 2009. In 2010 the list of reportable geographical segments was extended by Belarus and Finland but their proportions are relatively small and will probably remain so in the foreseeable future.

	2010	2009	2008	2007	2006
Estonia	94%	86%	80%	88%	91%
Ukraine	2%	3%	12%	11%	9%
Lithuania	0%	0%	2%	1%	0%
Latvia	0%	11%	6%	0%	0%
Belarus	3%	0%	0%	0%	0%
Finland	1%	0%	0%	0%	0%

## Performance by business line

The core business of Nordecon Group is general contracting and project management in the field of buildings and infrastructure construction. The Group is involved, among other things, in the construction of commercial and industrial buildings and facilities, road construction and maintenance, environmental engineering, concrete works and real estate development.

Consolidated revenue for 2010 amounted to 1,553.9 million kroons (99.3 million euros), a 36% decrease from the 2,418.9 million kroons (154.6 million euros) generated in 2009. Above all, the downturn is attributable to a significant decline in the demand for construction services in all of the Group's markets and an exceptionally snowy and cold winter both at the beginning and end of the year, which had the strongest impact on the Infrastructure segment where most of the work is done outdoors. In addition, the absolute revenue figure was influenced by stiff competition that continued to lower prices in the construction market where the Group tried to avoid going along with underbidding aimed at winning major but excessively risky long-term contracts.

The Group aims to maintain the revenues generated by its business segments (Buildings and Infrastructure) in balance as this helps disperse risks and provides a more solid foundation under stressed circumstances when one segment experiences shrinkage. In view of estimated demand for apartments, in forthcoming years the proportion of revenue from the development and construction of apartment buildings will remain significantly below the strategic 20% limit.

### Segment revenue

In 2010 the Group's infrastructure construction revenues exceeded those of buildings construction. Considering that for some time most of the construction market tenders had been related to infrastructure (primarily projects financed with the support of the state and the EU structural funds) and that the majority of contracts in the Group's order book belonged to the Infrastructure segment, this was to be expected. Still, the revenues of the segments were practically equal because the Group's active buildings construction contracts had a shorter term than those of infrastructure construction. Infrastructure contracts have a longer term (e.g. road maintenance contracts) and their contribution to realised revenue is therefore comparatively smaller. However, we expect that in the near future the contribution of the Infrastructure segment will somewhat exceed that of Buildings.

In 2010 the Buildings and Infrastructure segments generated revenue of 715.5 million kroons (45.7 million euros) and 807.7 million kroons (51.6 million euros) respectively. The respective figures for 2009 were 1,055.4 million kroons (67.5 million euros) and 1,339.2 million kroons (85.6 million euros).

### Revenue distribution between segments<sup>1</sup>

Business segments	2010	2009	2008	2007	2006
Buildings	48%	45%	63%	53%	54%
Infrastructure	52%	55%	37%	47%	46%

<sup>1</sup> In *Management's discussion and analysis* the Ukrainian and Belarusian buildings segment and the EU buildings segment which are disclosed separately in the financial statements are presented as a single segment. In addition, the segment results presented in *Management's discussion and analysis* do not include the results of "other segments" that are presented in the financial statements or the results of parts of the Group that do not constitute operating segments.

In *Management's discussion and analysis*, projects have been aggregated and allocated to business segments based on their nature (i.e. buildings or infrastructure construction). In the segment reporting presented in the financial statements, aggregation and allocation is based on the Group entities' main field of activity (as required by IFRS 8 *Operating Segments*). For example, in the financial statements the results of an entity that is primarily engaged in infrastructure construction are presented within the Infrastructure segment. In *Management's discussion and analysis*, the revenues of such an entity are presented according to source. The differences between the two reports are not significant because in general Group entities specialize in specific areas except for the subsidiary Nordecon Betoön OÜ that is involved in both buildings and infrastructure construction.

## Revenue distribution within segments

Distribution of projects within the Buildings segment changed significantly compared with 2009 as well as with historical annual averages. There are two main reasons for this. The scarcity of projects forced companies to compete in all market segments and the number of contracts awarded was small compared with bids made. In a small market such a situation does not allow companies to concentrate on a specific area. Another important factor was the general economic environment. In 2010, private companies' investments in commercial and industrial buildings and facilities were almost nonexistent while local governments' investments in schools, nursery schools and public buildings increased, partly thanks to the support received from the EU structural funds. The notable proportion of industrial buildings in the Group's portfolio is attributable to the construction of the Ahtme peak load boiler plant, which to date has been completed. In the reporting period the Group built apartment buildings for external customers as a general contractor, not a developer.

Revenue distribution within the Buildings segment	2010	2009	2008	2007	2006
Commercial buildings	37%	66%	59%	58%	41%
Industrial and warehouse facilities	18%	10%	16%	9%	24%
Public buildings	35%	18%	14%	19%	18%
Apartment buildings	10%	6%	11%	14%	17%

As anticipated, in 2010 almost two thirds of the revenue generated by the Infrastructure segment was attributable to road construction and maintenance. The construction of other engineering facilities (mostly water and wastewater networks) is an area where the Group has won many tenders and their proportion is expected to remain relatively large also next year. The contribution of environmental engineering projects (e.g. the closure of landfills) remained stable compared with 2009. However, hydraulic engineering (water projects) that depends heavily on Estonian ports' investment policies plummeted to an all-time low in 2010.

Revenue distribution within the Infrastructure segment	2010	2009	2008	2007	2006
Road construction and maintenance	62%	49%	45%	41%	58%
Specialist engineering (including hydraulic engineering)	1%	12%	24%	33%	14%
Other engineering	28%	31%	25%	13%	0%
Environmental engineering	8%	8%	6%	13%	27%

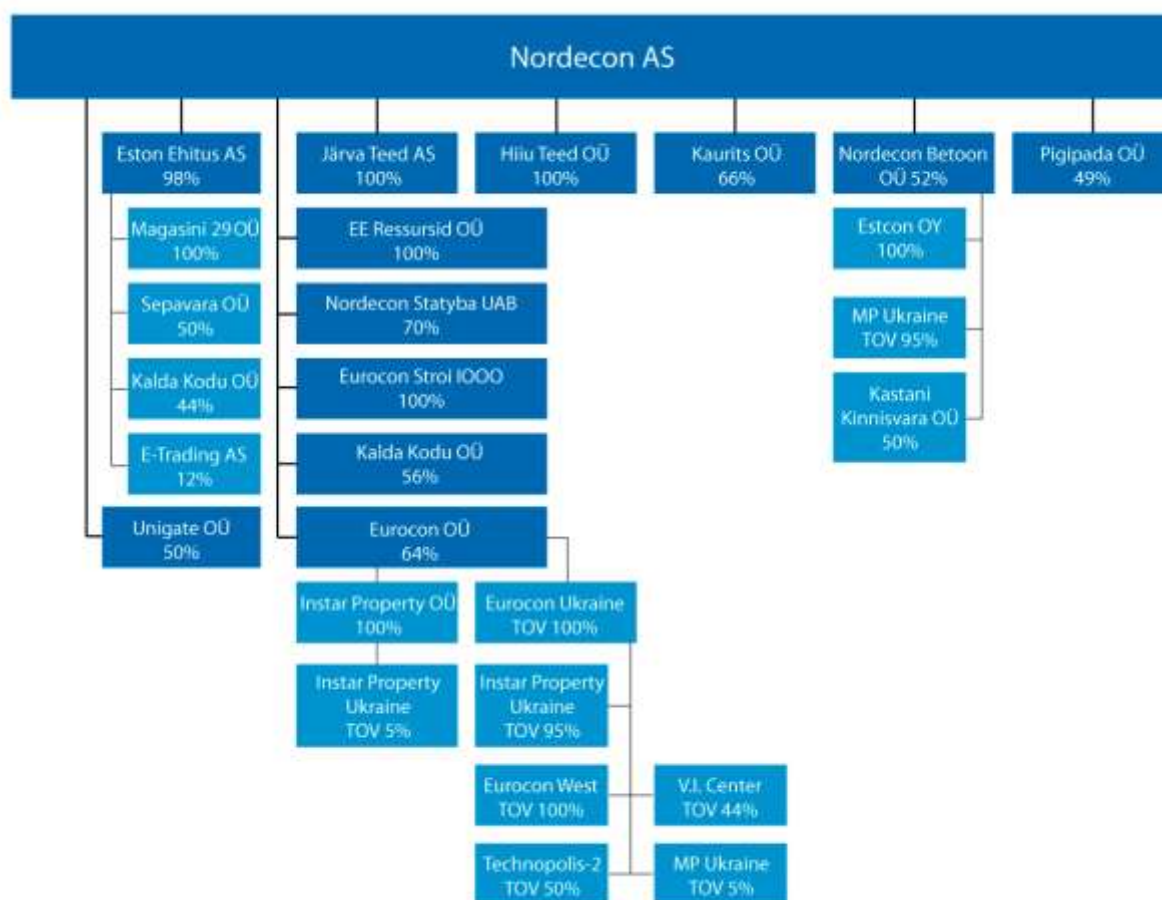
## A selection of completed projects

Projects completed by Group entities in various sub-segments together with information on construction volume:

Brief description of the project	Performer	Customer	Operating segment
Design and build of Mäo bypass	Nordecon AS (with EA Reng AS)	Road Administration	Road construction
Repair of the Sonda-Kiviõli section of secondary road 17120 - Sâmi-Sonda-Kiviõli (10.3 km)	Nordecon AS	Road Administration of Eastern Region	Road construction
Construction of storage area III for Torma landfill	Nordecon AS	OÜ Amestop	Environmental engineering
Design and build of water and wastewater facilities in the water management project for the catchment area of the Emajõgi and Võhandu rivers, construction phase II	Nordecon AS	Emajõe Veevärk AS	Environmental engineering
Repair of the Papiniidu bridge on the Pärnu bypass	Nordecon AS	Road Administration	Other engineering
Design and build of phase I of the Koidula railway border station	Nordecon AS	Riigi Kinnisvara AS	Other engineering
Construction of Science Centre AHHA	Nordecon AS	SA Teaduskeskus AHHA	Public buildings
Design and build of an apartment building at Vana-Lõuna 39	Nordecon AS	OÜ Grove Invest	Apartment buildings
Construction of a milking shed for OÜ Kure Mõis	Nordecon	Kure Mõis OÜ	Industrial and warehouse facilities
Construction of Aseri Driving Practice Centre	Betoon OÜ	OÜ Autosõit	Industrial and warehouse facilities
Construction of a private residence at Valguse 17	Nordecon	Individual	Other engineering
Renovation of Pärnu Maritime Centre (Yacht Club)	Betoon OÜ		
Production and installation of traffic control devices for Mäo bypass (subcontract)	Eston Ehitus AS	PJK Haldus OÜ	Public buildings
Design and build of phase III of the Hiiumaa waste disposal facility	AS Järva Teed	Nordecon AS	Road construction
	Hiiu Teed OÜ	OÜ Hiiumaa Prügila	Environmental engineering

## Group structure and major structural changes

The Group's structure at 31 December 2010 including interests in subsidiaries and associates<sup>1</sup>



<sup>1</sup> The chart does not include the subsidiaries OÜ Eesti Ehitus, OÜ Aspi, OÜ Linnaehitus, OÜ Mapri Projekt, OÜ Rendiekspert and Infra Ehitus OÜ that currently do not conduct any significant business operations. The first four were established to protect former business names.

### Major changes in the Group's structure in 2010

#### Nordecon AS

In January, Nordecon AS and Nordecon Ehitus AS (before their merger) completed the establishment of Eurocon Stroi IOOO, a Belarusian company. The shareholders' interests were 70% and 30% respectively. The company was established for performing project-based construction work. After the merger of Nordecon Ehitus AS and Nordecon AS, Eurocon Stroi IOOO became a wholly-held subsidiary of the Group's parent.

In February, Nordecon AS sold its 56% stake in the Latvian subsidiary Nordecon Infra SIA along with interests in its subsidiaries. The subsidiary was sold to an external party (a non-controlling shareholder) (see note 7 to the consolidated financial statements). After the transaction, the Group has no ownership interests in companies registered in Latvia.

In April, Nordecon AS sold 100% of its shares in the Finnish subsidiary Estcon OY to Group company Nordecon Betooni OÜ that started to use the subsidiary for performing concrete works in Finland. The Finnish general contracting and project management market is not one of the Group's target markets. Therefore, transfer of the investment from the parent was not in contradiction with the Group's general investment holding strategy.

In December, the Group finalised the merger of Nordecon Infra AS and Nordecon Ehitus AS with the Group's parent Nordecon International AS. After the merger, the parent company was renamed Nordecon AS and the subsidiaries Nordecon Infra AS and Nordecon Ehitus AS discontinued their activity. The subsidiaries of the merged companies continued operating as stand-alone entities under Nordecon AS.

#### **Nordecon Infra AS (before its merger with the parent Nordecon AS)**

In April, Nordecon Infra AS participated in the establishment of OÜ Pigipada, paying for a 24% stake with a monetary contribution of 9.6 thousand kroons (0.6 thousand euros). OÜ Pigipada is engaged in the production of bitumen emulsion. In July, Nordecon Infra AS increased its interest in the company to 49%, paying 10 thousand kroons (0.6 thousand euros) for the additional stake.

#### **Eston Ehitus AS**

In March, Eston Ehitus AS established a subsidiary OÜ Kaasa Vara. The share capital of the subsidiary was 40 thousand kroons (2.6 thousand euros). The entity did not engage in any business operations. It was established for carrying out the corporate rehabilitation plans of major debtors of Eston Ehitus AS. As the rehabilitation plans were not put into practice, Eston Ehitus AS sold OÜ Kaasa Vara in December 2010.

In May, Eston Ehitus AS participated in the establishment of Magasini 29 OÜ, acquiring a 34% stake for a monetary contribution of 13.6 thousand kroons (0.9 thousand euros). The entity was transferred some of the assets and liabilities of OÜ Crislivinca (an existing company in which the stake of Eston Ehitus AS was also 34%) that were related to an undeveloped property in Magasini street, Tallinn.

In August, Eston Ehitus AS and AS EKE Invest completed a transaction by which they swapped their interests in OÜ Crislivinca and Magasini 29 OÜ. Before the transaction, the respective stakes of Eston Ehitus AS and AS EKE Invest were 34% and 66% in both companies (see note 7 to the financial statements). After the transaction, Eston Ehitus AS holds 100% of the shares in Magasini 29 OÜ and has no stake in OÜ Crislivinca and AS EKE Invest holds all the shares in OÜ Crislivinca and has no stake in Magasini 29 OÜ.

#### **Eurocon Ukraine TOV**

In March, Eurocon Ukraine TOV sold its 99% stake in the subsidiary Bukovina Development TOV. The entity did not engage in any business operations. After the transaction, the Group has no ownership interest in Bukovina Development TOV.

## Financial review

### Margins

Nordecon Group ended 2010 with a gross loss of 11.0 million kroons (0.7 million euros) compared with a gross profit of 136.3 million kroons (8.7 million euros) earned in 2009. The loss on operating activities results mainly from the recognition of losses incurred on projects secured before the input prices started rising as well as adverse weather conditions at the beginning and end of the year, which had a strong impact on the performance of the road maintenance units.

According to management's assessment, fierce competition continues to keep the gross margins of secured and new contracts lower than they would be in a stable market. A slow but steady rise in input prices means that long-term contracts signed in the previous period will remain exposed to the risk of loss. The Group recognised all known construction contract losses in the first half-year and, following a specification of estimates, some losses also in the fourth quarter. In the second and third quarter the Group's core operations generated a profit. Although the figures did not meet to the Group's profit targets, management believes that the Group is moving in the right direction for restoring its operational profitability in 2011. Considering the contracts in the Group's uncompleted portfolio, i.e. the order book figures, the overall trend has become distinctly positive.

Unfavourable weather conditions had a two-fold impact on the Group's operations. On the one hand, during the months of heavy snow it was not possible to do outdoor work (road and outdoor network construction, etc), which affected mainly the Infrastructure segment, and although there was a kind of technological standstill the Group continued to incur its fixed costs. On the other hand, extreme snow conditions affected the results of the road maintenance contracts because the costs incurred exceeded those of previous years while underlying revenue remained fixed. For instance, in 2010 the costs of fuel and road spraying salt were three times larger than those of milder winters (2006-2007).

The Group's administrative expenses totalled 76.5 million kroons (4.9 million euros). Compared with 2009, the Group has cut its administrative expenses by 39%, clearly exceeding the 30% target. As at the reporting date, the ratio of administrative expenses to revenue was 4.9% (2009: 5.2%). We are pleased to report that cost-saving measures have yielded good results – despite decreasing volumes we have been able to maintain the level of administrative expenses below the target set for normal market conditions, i.e. 5% of revenue.

In 2010 the Group recognised and reported in other operating expenses exceptional losses from impairment of trade receivables and goodwill. Group company Eston Ehitus AS' receivables from counterparties that had commissioned the construction of the Pärnu Keskus shopping mall and its car park were written down by 42.2 million kroons (2.7 million euros) because the debtors' rehabilitation plans were not carried out and bankruptcy proceedings were instituted against one of the debtors. After the write-down (including the losses recognised in finance expenses), the Group's statement of financial position includes no more receivables from counterparties to the construction of Pärnu Keskus and the car park or companies related to them. In addition, goodwill of 4.7 million kroons (0.3 million euros) that had been recorded on the acquisition of the subsidiary Magasini 29 OÜ was written down in full because the expected profitability of the entity's development project had declined and in connection with the divestment of the subsidiary Nordecon Infra SIA goodwill was written down by 1.7 million kroons (0.1 million euros).

As a result, the Group's operating loss for 2010 amounted to 140.4 million kroons (9.0 million euros) compared with an operating loss of 126.7 million kroons (8.1 million euros) for 2009.

In 2010 the Group recognised and reported in finance expenses an impairment loss of 40.2 million kroons (2.6 million euros) on loans to legal persons. The write-down concerned loans provided by Eston Ehitus AS to owners of the companies that had commissioned the construction of Pärnu Keskus.

The disposal of the Latvian subsidiary Nordecon Infra SIA (see the chapter *Organisation of the Group's Estonian and foreign operations in 2010*) resulted in a net loss of 10.3 million kroons (0.7 million euros) that consisted of a book sales gain of 32.6 million kroons (2.1 million euros) and losses of 42.9 million kroons (2.7 million euros) incurred on the loans and guarantees provided to the subsidiary.

The Group's net loss for 2010 was 199.3 million kroons (12.7 million euros). The loss attributable to owners of the parent Nordecon AS amounted to 184.8 million kroons (11.8 million euros).

## Cash flows

In 2010, the Group's operating activities resulted in a net cash outflow of 58.4 million kroons (3.7 million euros) while 2009 ended in a net cash inflow of 99.9 million kroons (6.4 million euros). Compared with the previous year, operating cash inflow was replaced by operating cash outflow. This is mainly attributable to cyclical fluctuations in project-related cash flows and the impact of unprofitable projects. The customers' (including the state and local governments) contractual settlement terms lengthened (to approx. 60 days and above) and in the case of some projects payments were deferred to 2011. On the other hand, the Group completed some major projects whose warranty and similar retentions were released after successful delivery. In the second half of the year, operating cash flow was influenced by unprofitable projects whose effect may also be felt in the first half of 2011. To some extent, the negative cash flow may also be attributed to the Group's decision to pay employee salaries for December 2010 in the same month although usually this is done at the beginning of the next. Thus payroll expense for 2010 actually includes remuneration for 13 months. This was done to mitigate the risks related to the introduction of the euro. For example, to prevent a situation where owing to a system failure the Group would not have been able to pay out employee salaries by the date agreed in the employment contracts.

Investing activities generated a net inflow of 10.0 million kroons (0.6 million euros) compared with a net outflow of 54.0 million kroons (3.5 million euros) for 2009. A significant proportion of cash outflows from investing activities (9.6 million kroons/0.6 million euros) is attributable to the disposal of the subsidiary Nordecon Infra SIA and the discontinuance of its consolidation (see note 7 to the financial statements). A significant proportion of cash inflows resulted from the disposal of property, plant and equipment and investment properties that generated proceeds of 24.4 million kroons (1.6 million euros).

Financing activities resulted in a net cash outflow of 85.9 million kroons (5.5 million euros) compared with an outflow of 116.9 million kroons (7.5 million euros) in 2009. The structure of financing cash flows has remained stable. The Group is raising slightly less debt capital than required for settling its loan liabilities on a timely basis.

## Investment

### Equity investments

In the reporting period the Group did not make any major investments in non-Group entities. The recession in the Estonian construction market did not open up any attractive takeover opportunities by which the Group might have increased its market share or acquired additional competencies. Because of the slump, many companies had been forced to take relatively high risks in order to win contracts. As a result, mergers or acquisitions would not have created any added value.

Minor equity investments of the period are described in the chapter *Group structure and major structural changes* as well as note 6 to the consolidated financial statements.

### Investment in investment properties

In 2010 the Group did not purchase any new investment properties (properties held for resale, earning rental income or capital appreciation) but sold two previously acquired properties whose total book value was 10.8 million kroons (0.7 million euros). The transaction gave rise to a loss of 2.0 million kroons (0.1 million euros).

### Investment in property, plant and equipment and intangible assets

The Group did not make any major investments in property, plant and equipment. Purchases of property, plant and equipment totalled 8.6 million kroons (0.5 million euros). The balance of property, plant and equipment decreased on account of normal depreciation and disposal of a subsidiary (see notes 7 and 17).

Nor were any major investments made in intangible assets. During the period, the Group wrote goodwill down by a total of 6.4 million kroons (0.4 million euros).

### Changes in the book values of investments

Investment	EEK'000		EUR'000	
	2010	2009	2010	2009
Investments in equity-accounted investees	-649	-3,736	-41	-239
Investments in long-term financial assets	0	-337	0	-22
Investment property	-10,840	-28,808	-693	1,841
Property, plant and equipment	-62,698	-59,180	-4,007	-3,782
Intangible assets	-25,937	-36,955	-1,658	-2,362

Management does not intend to make any major changes to the Group's investment behaviour in 2011.



## Key financial figures and ratios

Figure / ratio	2010	2009	2008	2007	2006
Revenue (EEK'000)	1,553,890	2,418,880	3,867,917	3,752,028	2,503,844
Revenue (EUR'000)	99,312	154,594	247,205	239,798	160,025
Change in revenue	-36%	-37.5%	3.1%	49.9%	49.5%
Net profit/loss (EEK'000)	-199,299	-89,444	171,316	289,771	190,073
Net profit/loss (EUR'000)	-12,738	-5,717	10,949	18,520	12,148
Profit/loss attributable to owners of the parent (EEK'000)	-184,792	-45,740	145,580	267,482	177,003
Profit/loss attributable to owners of the parent (EUR'000)	-11,811	-2,923	9,304	17,095	11,313
Weighted average number of shares <sup>1</sup>	30,756,728	30,756,728	30,756,728	30,756,728	30,756,728
Earnings per share (EEK)	-6.01	-1.49	4.73	8.70	5.75
Earnings per share (EUR)	-0.38	-0.09	0.30	0.56	0.37
Average number of employees	774	1,128	1,232	1,103	871
Revenue per employee (EEK'000)	2,008	2,144	3,140	3,402	2,875
Revenue per employee (EUR'000)	128	137	201	217	184
Personnel expenses to revenue	14.6%	15.0%	12.7%	12.3%	11.0%
Administrative expenses to revenue	4.9%	5.2%	4.7%	4.6%	5.0%
EBITDA <sup>2</sup> (EEK'000)	-86,247	4,308	281,161	370,581	236,367
EBITDA <sup>2</sup> (EUR'000)	-5,512	275	17,969	23,684	15,107
EBITDA margin	-5.6%	0.2%	7.3%	9.9%	9.4%
Gross margin	-0.7%	5.6%	9.3%	13.3%	12.2%
Operating margin	-9.0%	-5.2%	5.4%	8.2%	8.2%
Operating margin excluding gains on asset sales	-9.4%	-5.4%	5.3%	7.8%	7.0%
Net margin	-12.8%	-3.7%	4.4%	7.7%	7.6%
Return on invested capital	-15.8%	-4.1%	19.1%	32.7%	33.2%
Return on assets	-8.3%	-6.0%	9.1%	17.1%	17.3%
Return on equity	-32.6%	-11.4%	20.5%	44.1%	53.6%
Equity ratio	35.1%	37.1%	36.5%	36.9%	35.8%
Gearing	42.3%	26.4%	18.2%	13.5%	14.3%
Current ratio	1.39	1.47	1.33	1.30	1.33
<b>As at 31 December</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>
Order book (EEK'000)	1,339,459	1,530,661	2,220,748	2,526,652	2,453,419
Order book (EUR'000)	85,607	97,827	141,932	161,482	156,802

<sup>1</sup> For comparability, the weighted average number of shares is the number of shares after the bonus issues in 2005 and 2006.

<sup>2</sup> For the purposes of calculating EBITDA, non-cash expenses include depreciation and amortisation as well as impairment losses on goodwill of 6,425 thousand kroons (411 thousand euros) recognised in 2010 and 61,206 thousand kroons (3,912 thousand euros) recognised in 2009.

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 investment properties and real estate held for sale) / 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



## Order book

At 31 December 2010, the Group's order book stood at 1,339.5 million kroons (85.6 million euros), 12% down from the 1,530.7 million kroons (97.8 million euros) posted a year ago. In 2010, the decline in the Group's order book decelerated notably and the forward order book levelled off at around 1,300-1,500 million kroons (83-96 million euros) throughout the year.

As at 31 December	2010	2009	2008	2007	2006
Order book (EEK'000)	1,339,459	1,530,661	2,220,748	2,526,652	2,453,419
Order book (EUR'000)	85,607	97,827	141,932	161,482	156,802

At 74% the Infrastructure segment continues to account for a major proportion of the Group's total order book (2009: 74%).

The value of the order portfolio has decreased due to the downturn in the construction market. In a situation where the decrease in input prices has been replaced by a rise in all sectors of the construction market, the Group's management continues to focus on improving the profitability of the contract portfolio rather than increasing its growth rate.

Between the reporting date (31 December 2010) and the date of release of this report, Group companies have been awarded additional construction contracts of approximately 1,017.4 million kroons (65.0 million euros) including the contract for the construction of the Aruvalla-Kose section of the Tallinn-Tartu highway (signed 15 April 2011) of 614.3 million kroons (39.3 million euros). A year ago, the corresponding figure for contracts signed after the reporting date, but before the approval of annual report was 160.0 million kroons (10.2 million euros).

## People

Nordecon 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, the Group's management is committed to creating a contemporary work environment that fosters professional growth and development in terms of working conditions, career opportunities and nature of the work offered.

### People and personnel expenses

In 2010, the Group employed, on average, 774 people including around 360 engineers and technical personnel. A more than 30% decrease in the number of staff compared with 2009 is attributable to the discontinuance of operations in the Latvian market and extensive right-sizing in the Ukrainian and Estonian markets. Management believes that in 2011 headcount should remain stable although, as usual, it will be influenced by additional seasonal labour hired mainly in the second and third quarters and the size of new contracts secured by the Group.

#### Average number of the Group's employees (comprising all Group entities):

Year	Engineers and technical personnel	Workers	Total average
2010	362	412	774
2009	467	661	1,128
2008	511	721	1,232
2007	425	678	1,103
2006	329	542	871

The Group's team is dynamic and energetic. The average age of members of Group entities' managements is 39 and that of engineers and technical personnel 33. On average, our employees have been with us for seven to eight years and men and women account for 87% and 13% of the staff respectively

The Group's personnel expenses for 2010 including all associated taxes totalled 226.8 million kroons (14.5 million euros), a 38% decrease compared with the 363.5 million kroons (23.2 million euros) incurred in 2009.

Personnel expenses have declined through downsizing and a significant decrease in performance pay that is linked to the projects' profit margins. Owing to the overall economic situation and the slump in the construction market, in 2010 Group entities laid off over 40 people. On the divestment of the Latvian operations, the number of staff decreased by around 150. In addition, approximately 170 fixed term contracts were terminated on expiry.

In 2010, the remuneration of the members of the council of Nordecon AS including associated social security charges amounted to 1.4 million kroons (0.1 million euros). The corresponding figure for 2009 was also 1.4 million kroons (0.1 million euros). The remuneration of the members of the board of Nordecon AS including social security charges (and the termination benefits of a board member) totalled 3.1 million kroons (0.2 million euros) compared

with 3.3 million kroons (0.2 million euros) for 2009. The remuneration of the board has decreased because in the comparative period the board had more members, on average, than in the reporting period (see the chapter *Members of the council and board of Nordecon AS*).

### Employee training and further education

In 2010 our main employee training priority was further professional training that helps the staff improve their professional qualifications. Our engineers and technical personnel include over 50 people that have been awarded Civil Engineer IV, Diploma Civil Engineer V or some other certified qualification. The Group encourages and recognises gathering of personal references, which inspires project managers and teams to implement more innovative technical solutions that allow them to manage increasingly larger and more complex projects. A lot of attention is also paid to the development of teamwork and intra-Group knowledge sharing.

The Group hires new specialists mostly from among the graduates of Tallinn University of Technology, Tallinn College of Engineering and the Estonian University of Life Sciences. In 2010, Nordecon employed 32 students, two thirds of them working for their master's degree. Altogether, 70% of our engineers and technical personnel either have or are obtaining a university degree. Unfortunately, because of the downturn in the construction market, the number of young people to whom the Group can offer scholarships and industry training has decreased. Nevertheless, in 2010 we provided industry training to more than 20 young people.

### Charitable activities and social responsibility

Nordecon values education, culture and harmonious development of society. Every year we support numerous charities, organisations and undertakings. Despite the taxing economic situation, in 2010 we found possibilities for supporting various initiatives with a total of 3.0 million kroons (0.2 million euros). In 2009 the corresponding figure was 4.1 million kroons (0.3 million euros).

The Group continued its work in the coalition *Companies against HIV*, which was established in 2007 in partnership with the Healthy Estonia Foundation and Swedbank, Statoil, TNS Emor and Hill & Knowlton. The purpose of the project is to improve dissemination of information about HIV and limiting the spread of the epidemic with the assistance of the private sector. On joining the coalition, Nordecon undertook to disseminate information about HIV within the Group and to support the performance of public notification programmes, particularly those aimed at people of employable age. The Group will continue its contribution to the coalition also in forthcoming years.

The Group's priority is to support organisations and institutions with a social focus such as the Development Foundation of Tallinn University of Technology (scholarships for students working for their bachelor's and doctor's degrees) and the Nõmme Private School Foundation. In the framework regional community involvement, we supported the Lääne-Viru Development Conference of 2010.

Group companies are also generous sponsors of sports. They have cooperation agreements with the Estonian Ski Association (for supporting youth sports), volleyball club Tartu Pere Leib and basketball club of Tallinn University of Technology. In addition, in 2010 the Group supported world discus champion and winner of the 2008 Beijing Olympics Gerd Kanter and was the gold sponsor of the Kose event of the Bigbank Kuldliga Athletics Meet.

Under long-term partnership agreements, the Group supports Tallinn City Theatre, Tallinn University of Technology and various other cultural and social establishments. For example, we have committed ourselves to a 10-year programme of financing the acquisition of new equipment for the Strength of Materials Laboratory of the Faculty of Civil Engineering of Tallinn University of Technology in order to provide future civil engineers with contemporary research and study opportunities.

For years, we have also considered it important to support the development of Estonian Defence Forces. Through a cooperation agreement with the National Defence Promotion Foundation, we support the recognition of the best officer and the best non-commissioned officer serving in the Estonian Defence Forces.

## Share and shareholders

### Share information

<b>Name of security</b>	Nordecon AS ordinary share
<b>Issuer</b>	Nordecon AS
<b>ISIN code</b>	EE3100039496
<b>Ticker symbol</b>	NCN1T (until 3 April 2009 EEH1T)
<b>Nominal value</b>	10.00 kroons / 0.64 euros
<b>Total number of securities issued</b>	30,756,728
<b>Number of listed securities</b>	30,756,728
<b>Listing date</b>	18 May 2006
<b>Market</b>	NASDAQ OMX Tallinn, Baltic Main List
<b>Industry</b>	Construction and engineering
<b>Indexes</b>	OMX_Baltic_Benchmark_Cap_GI; OMX_Baltic_Benchmark_Cap_PI OMX_Baltic_Benchmark_GI; OMX_Baltic_Benchmark_PI; OMX_Baltic_GI OMX_Baltic_PI; OMX Tallinn_GI; OMX_Baltic_Industrials_GI; OMX_Baltic_Industrials_PI

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

### Summarised trading results

#### Share trading history (EEK)

Price	2010	2009	2008	2007 <sup>1</sup>	2006 <sup>1,2</sup>
Open	25.35	16.43	76.51	83.32	48.51
High	40.68	29.26	76.51	112.27	93.88
Average	23.94	16.74	46.47	88.56	59.93
Low	16.43	8.61	14.86	69.00	45.85
Last closing price	21.89	24.72	15.96	76.67	82.69
Traded volume (number of securities traded)	8,237,449	9,627,956	6,447,283	7,284,775	5,023,787
Turnover, millions	198.67	188.24	313.68	845.09	563.59
Listed volume (31 Dec), thousands	30,757	30,757	30,757	30,757	30,757
Market capitalisation (31 Dec), millions	673.27	760.36	490.86	2,358.07	2,543.30

#### Share trading history (EUR)

Price	2010	2009	2008	2007 <sup>1</sup>	2006 <sup>1,2</sup>
Open	1.62	1.05	4.89	5.33	3.10
High	2.60	1.87	4.89	7.18	6.00
Average	1.53	1.07	2.97	5.66	3.83
Low	1.05	0.55	0.95	4.41	2.93
Last closing price	1.40	1.58	1.02	4.90	5.28
Traded volume (number of securities traded)	8,237,449	9,627,956	6,447,283	7,284,775	5,023,787
Turnover, millions	12.70	12.03	20.05	54.01	36.02
Listed volume (31 Dec), thousands	30,757	30,757	30,757	30,757	30,757
Market capitalisation (31 Dec), millions	43.03	48.60	31.37	150.71	162.55

<sup>1</sup> In 2007 the number of shares issued in the IPO was doubled through a capitalization issue. For comparability with subsequent periods, the share prices for 2006 and 2007 have been adjusted.

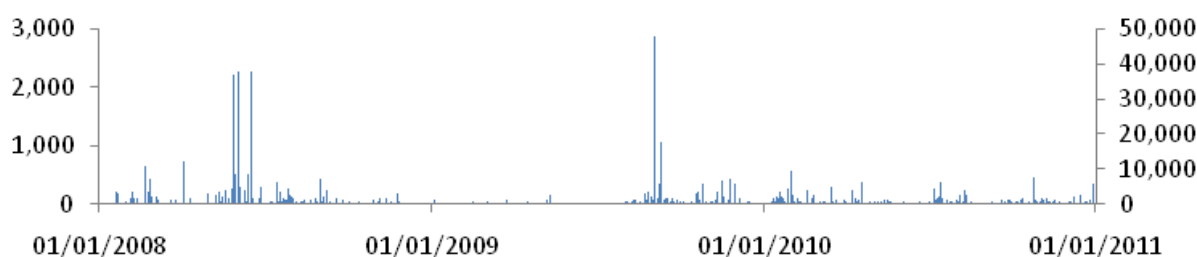
<sup>2</sup> The shares were listed on 18 May 2006.

## Movements in the price and turnover of the Nordecon AS share in 2008-2010

### Movements in share price in euros and kroons



### Daily turnover in thousands of euros and thousands of kroons



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

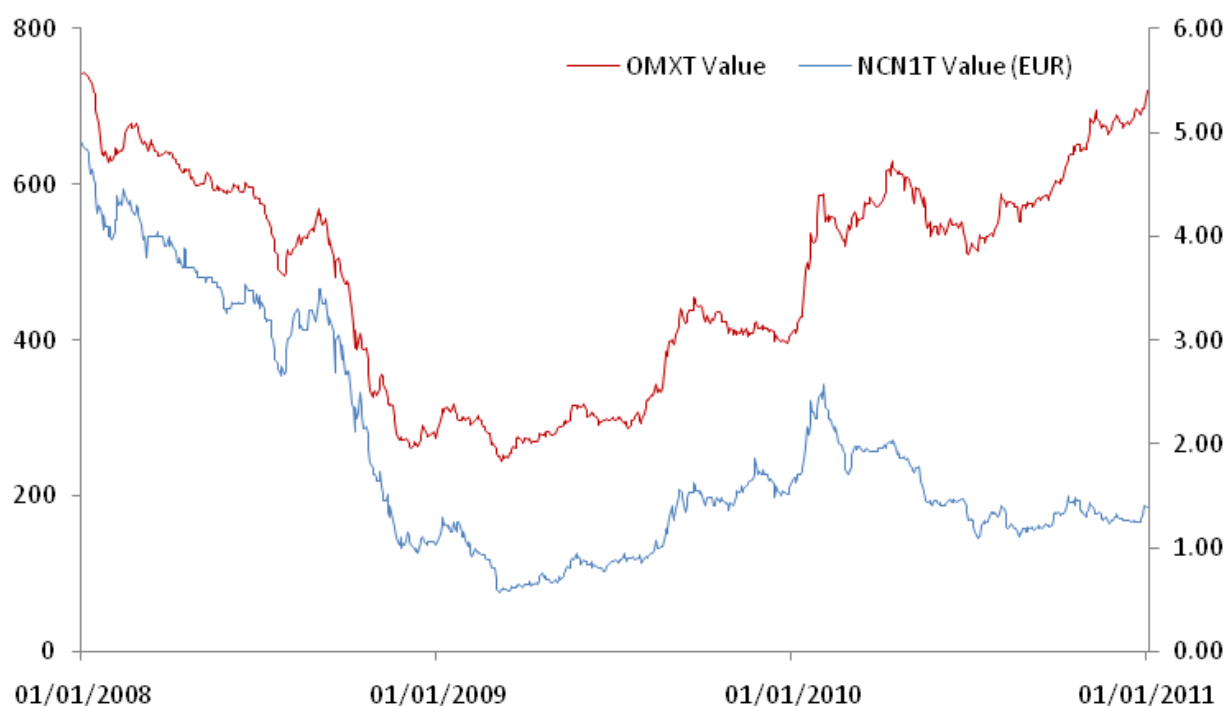
Ratio	2010	2009	2008	2007 <sup>2</sup>	2006 <sup>2,3</sup>
P/E (market price per share / earnings per share)	- <sup>1</sup>	- <sup>1</sup>	3.4	8.8	14.8
P/B (market price per share / book value per share)	1.3	1.1	0.6	3.3	5.5

<sup>1</sup> The P/E ratio is not calculated when earnings per share are negative

<sup>2</sup> In 2007 the number of shares issued in the IPO was doubled through a capitalization issue. For comparability with subsequent periods, the share prices for 2006 and 2007 have been adjusted.

<sup>3</sup> The shares were listed on 18 May 2006.

### Movement of the share price compared with the OMX Tallinn main index in 2008-2010



Index/equity	1 Jan 2008	31 Dec 2010	+/-%
OMX Tallinn	742.45	698.38	-5.94
NCN1T	EUR 4.90	EUR 1.40	-71.45

## Shareholder structure

### Largest shareholders of Nordecon AS at 31 December 2010

Shareholder	Number of shares	Ownership interest
AS Nordic Contractors	16,507,464	53.67
Skandinaviska Enskilda Banken Ab Clients	2,563,841	8.34
ING Luxembourg S.A.	1,111,853	3.61
State Street Bank and Trust Omnibus Account A Fund	831,714	2.70
Ain Tromp	578,960	1.88
ASM Investments OÜ	519,600	1.69
SEB Pank AS	363,689	1.18
Aivo Kont	315,500	1.03
Skandinaviska Enskilda Banken Ab	307,410	1.00

### Shareholder structure of Nordecon AS by ownership interest at 31 December 2010

Ownership interest	Number of shares	Ownership interest
Shareholders with interest exceeding 5%	2	62.01
Shareholders with interest between 1% and 5%	7	13.10
Shareholders with interest below 1%	2,195	24.89
<b>Total</b>	<b>2,204</b>	<b>100.00</b>

### Shareholder structure of Nordecon AS by shareholder category at 31 December 2010

Shareholder category	Number of shares	Ownership interest
Companies (legal persons)	18,877,423	61.38
Financial institutions (banks, investment funds)	7,049,803	22.92
Individuals	4,437,896	14.43
Insurance companies	391,606	1.27
<b>Total</b>	<b>30,756,728</b>	<b>100.00</b>

**Shareholder structure of Nordecon AS by shareholder's domicile as at 31 December 2010**

<b>Domicile</b>	<b>Number of shares</b>	<b>Ownership interest</b>
Estonia	23,837,071	77.50
Sweden	3,083,663	10.03
Luxembourg	1,159,163	3.77
USA	1,171,565	3.81
Lithuania	397,621	1.29
Great Britain	414,971	1.35
Finland	285,023	0.93
Latvia	128,798	0.42
Other countries	278,853	0.90
<b>Total</b>	<b>30,756,728</b>	<b>100.00</b>

**Shares controlled by members of the council of Nordecon AS at 31 December 2010**

<b>Council member</b>		<b>Number of shares</b>	<b>Ownership interest</b>
Toomas Luman (AS Nordic Contractors, OÜ Luman ja Pojad) <sup>1</sup>	Chairman of the Council	16,569,144	53.87
Ain Tromp	Member of the Council	578,960	1.88
Alar Kroodo (ASM Investments OÜ) <sup>1</sup>	Member of the Council	519,600	1.69
Andri Hõbemägi	Member of the Council	40,000	0.13
Tiina Möis	Member of the Council	0	0.00
Meelis Milder	Member of the Council	0	0.00

<sup>1</sup> Companies controlled by the individual

**Shares controlled by members of the board of Nordecon AS at 31 December 2010**

<b>Board member</b>		<b>Number of shares</b>	<b>Ownership interest</b>
Jaano Vink	Chairman of the Board	34,000	0.11
Avo Ambur <sup>2</sup>	Member of the Board	32,322	0.11
Marko Raudsik <sup>2</sup>	Member of the Board	0	0.00
Erkki Suurorg <sup>2</sup>	Member of the Board	0	0.00

<sup>2</sup> Joined the board of Nordecon AS in 2011.

Members of the board and council of Nordecon AS and companies controlled by them have not been granted any share options under which they could acquire shares in Nordecon AS in a subsequent period.

**Restrictions on the transfer and encumbrance of shares**

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

**Members of the council and board of Nordecon AS****Council**

The council has six members - two represent the controlling shareholder AS Nordic Contractors, two represent small shareholders and two are independent. All members of the council have been elected by the general meeting for a term of five years.

**Toomas Luman (chairman of the council)** – a representative of AS Nordic Contractors and a majority shareholder

An engineer with a diploma in civil and building engineering from Tallinn Polytechnic Institute (today: Tallinn University of Technology), Toomas Luman is one of the founders of the Nordecon Group and has been involved in the activities of the Group as a member of the council or board for over 20 years. Besides construction companies, he has held senior positions at various other enterprises (AS Tallinna Kaubamaja, AS E-Betoonelement, OÜ Vääkivi, AS Eesti Energia, etc). He is an active member of the community and has consistently contributed to the development of the entrepreneurial environment, education and national defence. For over 15 years he has led the Estonian Chamber of Commerce and Industry and has participated in the professional association of construction entrepreneurs. As chairman of the Chamber of Commerce, he was actively involved in the preparatory activities for Estonia's accession to the EU and the euro-zone. Before Estonia joined the EU, Toomas Luman was chairman of the consultative committee of the head of the Estonian state delegation in EU accession

negotiations (the minister of foreign affairs) for four years. He has been awarded the Order of the White Star of the Republic of Estonia (First Class, Third Class and Fifth Class) and he has received various awards from the Estonian Defence Forces, the Estonian National Defence League and several other state and non-profit organisations. He has also received state awards from several foreign countries.

Membership in the governing bodies of other organisations: OÜ Luman ja Pojad and its subsidiaries and associates (including AS Nordic Contractors board), Eesti Energia AS (council), Eesti Energia Kaevandused AS (council), Estonian Chamber of Commerce and Industry, Tallinn Yacht Club, Nõmme Private Education Foundation, Foundation for Promoting National Defence, Development Foundation of Tallinn University of Technology, Centre for Strategic Initiatives, Cultural Foundation of the President of the Republic, Alumni Association of Tallinn University of Technology.

Interests (exceeding 5%) in other companies: OÜ Luman ja Pojad and its subsidiaries and associates (including AS Nordic Contractors).

**Alar Kroodo (vice chairman of the council) – representative of small shareholders**

A civil and building engineering graduate of Tallinn Polytechnic Institute (today: Tallinn University of Technology), Alar Kroodo has been actively engaged in the construction business for over 30 years, mainly in southern Estonia. He was manager of the construction enterprise Tartu Ehitustrusti Ehitusvalitsus and in 1992 established AS Linnaehitus (later renamed Nordecon Ehitus AS) where he worked as chairman of the board until 2003. Since then, he has been actively involved in the control functions of the Nordecon entities (Nordecon Ehitus AS, chairman of council 2003-2009). He is an active member of the community – he has participated in the activities of the Tartu Rotary Club and the management of the Estonian Association of Construction Entrepreneurs as well as various sports associations. He has been awarded the Order of the White Star of the Republic of Estonia (Fourth Class).

Membership in the governing bodies of other organisations: AS Nordic Contractors (council), ASM Investments OÜ and its subsidiaries and associates (board/council), OÜ Tähering (board), Tartu Sports Association Kalev.

Interests (exceeding 5%) in other companies: ASM Investments OÜ and its subsidiaries and associates, OÜ Tähering.

**Ain Tromp – representative of small shareholders**

Ain Tromp is a building engineering graduate of Tallinn Polytechnic Institute (today: Tallinn University of Technology). Since the 1980s he has been involved in the road construction business (Harju Road Administration and road repair and construction enterprise Teede Remondi ja Ehituse Trust). Between 1990 and 2007 he was the CEO and until 2009 chairman of the council of AS Aspi (later renamed Nordecon Infra AS). Since 1997 Ain Tromp has been on the board of the Estonian Asphalt Pavement Association. He has been awarded the Order of the White Star of the Republic of Estonia (Fourth Class).

Membership in the governing bodies of other organisations: the Estonian Asphalt Pavement Association (board, until April 2011)

Interests (exceeding 5%) in other companies: none

**Andri Hõbemägi – representative of AS Nordic Contractors**

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

Membership in the governing bodies of other organisations: AS Nordic Contractors and its subsidiaries and associates (board/council), AS FCF Lilleküla Jalgpallistaadion (council), NutriMe OÜ (board), Estonian Football Association, Pelgulinna Education Society.

Interests (exceeding 5%) in other companies: none

**Tiina Mõis – independent member**

Tiina Mõis is a *cum laude* economics graduate of Tallinn Polytechnic Institute (today: Tallinn University of Technology). Between 1980 and 1999 she was chief accountant of various companies, the best known of them AS Hansapank (later renamed AS Swedbank) where she was also a board member from 1995 to 1998. As a member of the council, she remained involved with AS Hansapank until 2005. Currently she is the CEO of investment firm AS Genteel. In addition, she is a member of the council of many large Estonian companies. Tiina Mõis is an active member of many social and community organisations that contribute to the development of entrepreneurship, education, health and sports in Estonia. She has been awarded the Order of the White Star of the Republic of Estonia (Fourth Class).

Membership in the governing bodies of other organisations: AS Genteel and its subsidiaries and associates (board/council), AS Baltika (council), AS LHV Group (council), AS LHV Pank (council), AS Martinson Trigon (council), HTB Investeeringute AS (council), Rocca al Mare Koolimaja AS (council), Rocca al Mare Kooli AS (council), Rocca al Mare School Foundation (council), Estonian Chamber of Commerce and Industry, Alumni Association of Tallinn University of Technology, Development Foundation of Tallinn University of Technology.

Interests (exceeding 5%) in other companies: AS Genteel and its subsidiaries and associates.

**Meelis Milder – independent member**

An economics graduate of the University of Tartu, Meelis Milder has been involved in the activities of Baltika, one of the flagship companies of the Estonian clothing industry since 1984. Currently he is chairman of the board and a major shareholder of AS Baltika, which is listed on the NASDAQ OMX Tallinn Stock Exchange, and a member of the council of AS Tallinna Kaubamaja, also listed on the NASDAQ OMX Tallinn Stock Exchange. He has been awarded the Order of the White Star of the Republic of Estonia (Fourth Class).

Membership in the governing bodies of other organisations: AS Tallinna Kaubamaja (council), AS Baltika and its subsidiaries and associates (board/council), BMIG OÜ (board), BML Invest OÜ (board), OÜ Kodreste (board), OÜ LVM Projekt (board), OÜ Maisan (board), Estonian Chamber of Commerce and Industry.

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

**Board**

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

**Changes on the board of Nordecon AS**

Due to the contraction of the Group's foreign operations, Priit Tiru who was responsible for coordinating the Group's foreign operations and strategic management of the buildings construction division was recalled from the board of Nordecon AS early based on a council resolution effective as of 1 November 2010.

In connection with the merger of Nordecon AS with its subsidiaries Nordecon Infra AS and Nordecon Ehitus AS (see the chapter *Organisation of the Group's Estonian and foreign operations in 2010*), the council appointed to the board of the merged entity new members who took office in January 2011. Jaano Vink continues as chairman of the board. The new board members are Avo Ambur, Marko Raudsik and Erkki Suurorg who all have long-term experience in the construction sector as well as in Nordecon Group.

**Jaano Vink, chairman of the board**

Jaano Vink is a qualified construction engineer. He joined the company in 2002 as deputy CEO, having previously worked for AS Muuga CT as development director and for AS Tallinna Sadam in various managerial capacities in the infrastructure construction department. He graduated from Tallinn University of Technology, department of Industrial and Civil Engineering, in 1993 and has studied International Business Administration at the Estonian Business School. The Estonian Association of Civil Engineers has awarded him the qualification of Diploma Civil Engineer V in the field of general construction. As chairman of the board, Jaano Vink is responsible for the overall management of the parent and Nordecon AS Group.

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

Interests (exceeding 5%) in other companies: none



**Avo Ambur, member of the board**

Avo Ambur has been on the board of various entities of Nordecon Group including the parent since 2002, being responsible for different areas as technical director, development director and since 2009 sales director. Before joining Nordecon, he worked for AS Lemminkäinen as a project manager. He graduated from Tallinn University of Technology as a construction engineer in 1993. The Estonian Association of Civil Engineers has awarded him the qualification of Diploma Civil Engineer V in the field of general construction. As a member of the board, Avo Ambur is responsible for Nordecon AS' sales and pre-construction operations.

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

Interests (exceeding 5%) in other companies: none

**Marko Raudsik, member of the board**

Marko Raudsik joined the Group as works manager in 1994. Since then he has served the Group as project manager, head of budget department and technical and sales director and has been on the board of a subsidiary since 2007. He graduated *cum laude* from Tallinn University of Technology, department of Building Technology, in 1994. The Estonian Association of Civil Engineers has awarded him the qualification of Diploma Civil Engineer V in the field of general construction. As a member of the board, Marko Raudsik is responsible for management of the buildings construction division of Nordecon AS.

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

Interests (exceeding 5%) in other companies: none

**Erkki Suurorg, member of the board**

Erkki Suurorg joined the Group in 1999. Over the years he has served the Group as project manager and division manager and has been on the board of various entities of Nordecon Group including the parent since 2005. He is a member of the Estonian Association of Civil Engineers and holds the qualification of Chartered Civil Engineer V. He graduated from Tallinn University of Technology with a diploma in civil engineering in 1997. As a member of the board, Erkki Suurorg is responsible for management of the infrastructure division of Nordecon AS.

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

Interests (exceeding 5%) in other companies: none

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

## Dividend policy

Dividends distributed by Nordecon AS in previous periods:

Year of payout	Total dividends paid EEK'000/ EUR'000	Number of shares, in thousands	Dividend per share EEK'000/ EUR'000	Dividend payout ratio <sup>1</sup>
2006	30,000 / 1,917	3,482	8.61/0.55	34.6%
2007	46,135 / 2,949	15,378	3.00/0.19	26.1%
2008	92,270 / 5,897	30,757	3.00/0.19	34.5%
2009	30,756 / 1,966	30,757	1.00/0.06	21.1%
2010	0/0	30,757	0/0	0%

<sup>1</sup> Formula: dividends paid/profit for the period attributable to owners of the parent from which the dividends were distributed

The board proposes that in 2010 no dividends be distributed as the reporting year ended in a loss.

**To date, dividend distributions have been determined by reference to:**

- The dividend expectations of the ultimate controlling party AS Nordic Contractors
- 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

## Description of the main risks and changes in the Group's risk management

### Business risks

Management believes that in the near future the main business risk will be stiff competition that induces companies to bid unreasonably low prices in a situation where input prices have started rising and may cause steep losses. In the construction market, the situation is aggravated by the fact that the need for winning contracts that would cover fixed costs and overheads at a level ensuring normal operating capacities is increasing. The Group's management expects to mitigate the risks by tight cost control and effective cost cutting as well as thorough analysis of new projects.

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 special 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, Group companies create warranties provisions. At 31 December 2010, the provisions (including current and non-current ones) totalled 20.8 million kroons (1.3 million euros). At 31 December 2009, the corresponding figure was 16.6 million kroons (1.1 million euros).

### Filing of criminal charges against Nordecon AS and a member of its board

The Estonian Road Administration published a notice of the public procurement tender for the design and construction of the E263 Aruvalla-Kose road section on 25 September 2008. Nordecon AS (at that date the Group's subsidiary Nordecon Infra AS) and Ramboll Eesti AS participated in the tender with a joint bid of 506.2 million kroons (32.4 million euros).

The tender gave rise to numerous disputes and challenges from 2008 to 2010. Owing to the challenges, the Road Administration endeavoured to cancel the procurement tender but the public procurement dispute review committee declared the Road Administration's resolution for cancellation invalid. The tender reached the stage where the joint bid of Nordecon AS and Ramboll Eesti AS was selected as the successful one and only the contract needed to be signed. However, on 26 October 2010 the financial control department of the ministry of finance, exercising state supervision, adopted a resolution that declared the public procurement tender invalid on the basis that during the procurement proceedings the Road Administration had repeatedly and seriously violated the Public Procurement Act.

Nordecon AS and Ramboll Eesti AS challenged the resolution of the financial control department of the ministry of finance in the administrative court and applied for preliminary legal protection that would have allowed moving on with the public procurement proceedings. The court did not apply preliminary legal protection although it found that the challenge had potential.

The Security Police Board instituted criminal proceedings for investigation of the circumstances surrounding the public procurement tender for the design and build of the Aruvalla-Kose road section. Member of the management board of Nordecon AS Erkki Suurorg and Nordecon AS (at the time Nordecon Infra AS) were charged with suspicion of attempting to conclude an agreement for distorting competition. Suspicion charges were also brought against the director general of the Road Administration and the chancellor of the ministry of economics. Nordecon AS and Erkki Suurorg have given their testimony to the Security Police Board and have affirmed that the charges against them are baseless. By the date of release of this annual report, no criminal charges have been filed against any of the suspects.

If criminal charges are brought and a conviction takes effect, then under section 400 of the Penal Code the maximum pecuniary punishment for Nordecon AS may extend to 10% of turnover and for a time the company may not be allowed participate in public procurement tenders.

### Financial risks

Financial risk management is described in detail in note 5 to the consolidated financial statements. The following paragraphs outline the main changes and developments in the Group's financial risk management.

**Credit risk**

In the reporting period there were no major changes in the Group's credit risk assessment policy. Despite the uncertainty prevailing in the economy and the construction market, the Group did not have to recognise any significant credit losses (with one exception). The credit risk exposure of the Group's receivables continues to be low because the proportion of public sector customers that receive their financing from the state and local government as well as the EU structural funds remains high.

In 2010, expenses from write-down of receivables totalled 41.5 million kroons (2.7 million euros) compared with 42.0 million kroons (2.7 million euros) in 2009. Nearly 100% of the figure is attributable to the impairment of receivables related to the Pärnu Keskus project (see note 9). There were practically no write-downs involving other projects. In addition, in the framework of the Pärnu Keskus project, loans to legal persons were written down by 40.2 million kroons (2.6 million euros) (see note 9). After the above write-downs, the Group has no more receivables related to the Pärnu Keskus project.

**Liquidity risk**

Similarly to the previous year, in 2010 construction companies had to face comparatively weak liquidity positions. The recession led to a liquidity crunch. Longer settlement terms, stricter customer demands and decreasing profitability of the projects had an adverse impact on companies' liquidity. In order to improve its liquidity and speed up collection of receivables the Group has implemented factoring.

Where necessary, overdraft facilities are used in order to meet commitments as they fall due. At the reporting date, the Group's current assets exceeded its current liabilities 1.39-fold (31 December 2009: 1.47-fold) and available cash funds totalled 91.0 million kroons (5.8 million euros) (31 December 2009: 225.2 million kroons / 14.4 million euros).

**Interest rate risk**

In 2010 the Group's interest rate risk exposure increased on account of loans and leases whose fixed interest rates were replaced by floating ones due to refinancing. The volume of such loans was not large and the weighted average interest rate of the Group's interest-bearing liabilities was 3.54% (2009: 3.31%). In recent years, banks and leasing companies have been increasingly interested in concluding contracts with a floating interest rate. This increases the Group's exposure to additional finance charges that may arise from a rise in the base interest rate. Meanwhile, the Group's loan liabilities have decreased and the trend will continue in subsequent periods. This curbs the potential negative impact that a rise in the base interest rate may have on the Group's cash flows. The Group has not acquired any derivatives for hedging the risks arising from instruments with a floating interest rate.

**Currency risk**

As a rule, construction contracts and subcontractors' service contracts are made in the currency of the host country: in euros (EUR), in Ukrainian hryvnas (UAH) and in Belarusian rubles (BYR). The Group's currency risk exposures result mainly from movements in the exchange rates of the Ukrainian and Belarusian currencies. In 2010 the exchange rates of those currencies did not change significantly (annual weakening against the Estonian kroon was less than 10%). The Group's currency risk exposures are lowered by the fact that in 2010 its Ukrainian and Belarusian revenues accounted for around 5% of its total revenue.

In connection with the negligible scope of operations in Lithuania, the currency risk related to that country is not relevant. The euro, which is used in the Finnish market, does not pose a currency risk for the Group. The prices of the services that the Group's Estonian entities purchase from abroad are mostly denominated in euros.

The Group does not expect the volume of its Ukrainian and Belarusian operations to increase significantly in 2011. Therefore, the Group's currency risk exposures from those countries should remain low. The Group has not acquired any derivatives to hedge its currency risk exposures.

## Outlooks of the Group's geographical markets

### Estonia

**According to the assessment of the Group's management, in 2011 the Estonian construction market will be influenced by the following factors:**

- Total demand in the construction market will remain heavily dependent on public procurement tenders and projects performed with the support of the European Union funds. Project initiation success depends on the administrative capabilities of the central and local government which have improved compared with previous periods but are still of unreliable quality, causing hold-ups and difficulties in both the procurement proceedings and the construction work.
- The contraction of the construction market ended with 2010. In 2011 the market will start recovering and construction volumes will grow somewhat. In addition to the infrastructure sector, where volumes are expected to remain steady, new projects will gradually be launched in the buildings construction sector. The latter should offer the main opportunities for growth, primarily because of the return of private sector customers (including foreign investors) that abandoned the market in previous years. However, in 2011 demand is not yet expected to recover to a level where all currently operating construction companies could secure sufficient business.
- Market consolidation will continue owing to the contraction in volumes in 2008-2010. In the past two years, many medium-sized and small real estate development and buildings construction companies that were unable to respond to market changes sufficiently quickly or had taken excessive real estate risks were forced to exit the market. In 2011, the number of construction companies will continue decreasing primarily because rising input prices are rendering the performance of contracts in the portfolios of companies that have survived a fall in the market and construction prices too unprofitable for those that have not noticed the trend or have deliberately ignored it due to cash flow problems. It is quite probable that in 2011 or 2012 even some fairly well-known companies (including those engaged in infrastructure construction) will have to discontinue or transform their operations. Above all, construction companies' ability to continue their operations will depend on their ability to manage their finances and to maintain sufficient liquidity.
- Both active projects and those secured in 2011 will be significantly influenced by various terms and conditions (including various warranties and long settlement terms) dictated by customers that are becoming increasingly unfavourable for construction companies.
- Construction contracts' profit margins will remain under pressure from continuously fierce competition and rising input prices. In addition, companies may continue challenging the results of poorly prepared public procurement tenders. The time and finance costs of the proceedings are high for all involved. It seems, though, that the situation with public procurements is improving and the most problematic time is over. It will be increasingly important to meticulously comply with every detail of the tender requirements.
- The situation in the labour market has stabilised and construction workers' outflow to the Scandinavian countries will not increase significantly. Companies have adapted to the situation but when volumes recover the availability of qualified labour will again be an issue. In 2011 the base wages paid by construction companies that have to maintain a cost-saving regime are not expected to increase.
- In 2011 and 2012 the construction market will be seriously and unfortunately somewhat unpredictably impacted by a massive and rapid allocation of funds raised from the sale of the carbon dioxide emission quotas for improving the energy efficiency of buildings. Around 150 million euros will be distributed for that purpose within roughly one and a half years. This will trigger rapid demand hikes in some specialized construction segments (joint filling, facade and roof works, and heating systems) as well as segments related to them, which will push up respective prices and may cause temporary problems for the entire sector.
- The post-depression macroeconomic and construction market indicators will continue to improve. As a result, the banks will be increasingly ready to grant private-sector customers new investment loans and, in the case of a suitable risk profile, also funding for real estate development. The investments made with the involvement of banks are not going to trigger major growth in market volumes but they will give a much-needed signal of the stabilisation of the investment climate, creating a basis for more visible market growth in 2012.

### Nordecon Group's main operational objectives for 2011

In 2011 Nordecon Group will focus on raising profitability compared with 2010 by:

1. Vigorously improving the efficiency of various aspects of its core business
2. Maintaining strict control over fixed costs
3. Keeping up and improving the team spirit and dedication of the Nordecon people

### Latvia and Lithuania

In February 2010, the Group sold its stake in the loss-generating Latvian entity Nordecon Infra SIA whose core business was construction of water and wastewater networks. According to the Group's assessment, the Latvian construction market will continue adjusting in the post-recession environment also in 2011. The Group does not exclude the possibility that in the next few years it will undertake some projects in Latvia through its Estonian entities, involving partners where necessary. Continuation of project-based business assumes the availability of profitable projects. The decision does not change the Group's strategic objectives in the Latvian construction market, i.e. the objective of conducting future operations in the Latvian market through local subsidiaries.

Recent economic developments in Lithuania have been similar to the ones in the other Baltic countries. Slowdown in investment, both in the public and private sectors, and similar factors have had a direct impact on the construction market. The commercial and residential construction markets (the Group as a general contractor not a developer) have contracted visibly and we do not expect private investors to launch many new projects in the near future.

In response to this, the operations of the Lithuanian-based Nordecon Statyba UAB have been suspended and the Group is monitoring the market situation. The temporary suspension of operations does not cause any major costs for the Group. It is possible that the Lithuanian operations will remain suspended through 2011. The decision does not change the Group's strategic objectives in the Lithuanian construction market, i.e. the objective of conducting future operations in the Lithuanian market through local subsidiaries.

### Ukraine

In Ukraine, the Group will continue mainly as a general contractor and project manager in the construction of commercial buildings and production facilities. In 2009, the number of projects started in the buildings construction segment decreased substantially. In 2010 the market did not recover. This implies, above all, the need for tight cost control also in 2011.

Activities on development projects that require major investment have been suspended to minimise the risks until the situation in the Ukraine eases up (the Group has currently an interest in two development projects that have been conserved).

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. Demand is mainly undermined by the customers' lack of financing. To date, the fluctuation of the local currency against the euro has stabilised and the Group's exposure to market-based currency risk has decreased considerably. It is also clear that the political climate has stabilised after the presidential elections, which should support improvement of the economic environment. This, in turn, would revive investment by local and foreign companies who account for a significant proportion of the Group's customers in the Ukrainian market. Although the political situation has not stabilised as quickly as anticipated and private sector customers have not started investing in projects where the Group has a competitive advantage, there is currently no scenario under which the Group would exit the Ukrainian market for good.

The construction market of a country with a population of around 46 million offers excellent future business opportunities. The Group's key success factor is relatively little competition among project management companies (the Group offers flexible construction management in combination with European practices and competencies) compared with the real needs of a normally functioning construction market. The Group's management is confident that the crisis experienced by the Ukrainian construction market and economy as a whole will transform local understanding and expectations of general contracting and project management in the construction business and, in the long-term perspective, the new thinking will improve the Group's position.

## Belarus

The Belarusian business environment has some similarities to the Ukrainian one but there is a discernible temporal shift. Conducting business is undermined by bureaucracy, complex taxation principles and various constraints on the provision of cross-border services. However, the potential of the Belarusian construction market is comparable to the Ukrainian one. There is demand for new buildings, the state has started to permit more direct foreign investment and there are no contemporarily managed construction companies in the market. Despite this, in 2011 the Group intends to do business in Belarus on a project basis (through one active project) in order to learn about local construction and post-construction requirements, regulations and practices. If the outcomes of the active project are not sufficiently positive and in balance with the risks taken, the Group will exit the Belarusian market.

## Finland

In Finland, the Group provides subcontracting services in the field of concrete works. This is an area where Estonian companies still have an edge over local entities through lower personnel expenses. The Finnish concrete works market allows the Group to compete for selected projects (the main criteria are the location and the customer's risk profile). In 2011 demand for concrete works should remain stable. Nevertheless, the Group will maintain a rational approach and will avoid taking excessive risks in Finland. The Group is currently not planning to expand its operations to other segments of the Finnish construction market (general contracting, project management, etc).

## Corporate governance report

Nordecon 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 AS in 2010 and its compliance with the requirements of CGR. It is recommended that an issuer comply with the CGR or explain any non-compliance in its corporate governance report. In 2010, Nordecon AS observed the CGR except where indicated otherwise in this report.

Nordecon AS (until 31 December 2010 Nordecon International AS, registration number 10099962) is a public limited company incorporated and 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 2010	30,756,728
At 31 December 2010	30,756,728

In 2010, the company'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. Each share carries one vote at meetings of the company and entitles the holder to a dividend, as declared from time to time.

The shares of Nordecon AS are listed in the main equity list of the NASDAQ OMX Tallinn Stock Exchange (Baltic Main List) under the ticker symbol NCN1T. The share register is maintained by the Estonian Central Register of Securities in electronic format. With a 53.67% interest the ultimate controlling party is AS Nordic Contractors, which is controlled by the chairman of the council. Other members of the board and council of Nordecon AS hold additionally approximately 4% of the shares.

## General meeting

### Exercise of shareholder rights

The general meeting is the highest governing body of Nordecon AS. General meetings may be 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 AS. Among other things, the general meeting has the power to approve the annual report, decide the allocation of profits, amend the articles of association, appoint the auditors, and elect the members of the company's council. A shareholder may attend the general meeting and vote in person or through a proxy carrying relevant written authorisation. General meetings are held on workdays and in a place that allows the majority of shareholders to participate in the general meeting.

Shareholders may send questions about the agenda items before the general meeting to the company's registered address or e-mail address. The company replies to all justified questions before the general meeting on its website or during the meeting when the respective agenda item is discussed.

In 2010 the company was represented at the general meetings by chairman of the board Jaano Vink who attended the meetings and was available throughout the meetings.

Under the articles of association, shares of different type do not carry rights which might result in a disproportionate treatment of shareholders upon voting. All shares issued by Nordecon 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 AS is not aware of any shareholder agreements that restrict 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 AS, a share is considered transferred when the acquirer has been entered in the share register.

In 2010, Nordecon AS complied with the CGR in respect of shareholder rights.

## Calling of a general meeting and information disclosed in the notice

The annual general meeting of Nordecon AS took place on 14 May 2010. In addition, there was one extraordinary general meeting which was held on 19 November 2010. Both meetings were held in the Conference Centre of Reval Hotel Olümpia and started at 10.00 a.m.

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

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

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

Information published in respect of candidates for the position of a member of the council includes their participation in the governing bodies (council, board, executive management) of other companies.

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

In 2010, Nordecon AS complied with the CGR in respect of calling general meeting and disclosing information.

## Conduct of a general meeting

The working language of a general meeting is Estonian. A general meeting may not be chaired by the chairman of the council or a member of the board. A general meeting is attended by all members of the board, the chairman of the council and, if possible, members of the council and at least one of the auditors. A general meeting is also attended by the candidate for the position of a member of the council if the candidate has not been a member of the council before and the auditor candidate.

The company has not considered it practicable to make the annual general meeting available to observers and participants via the Internet.

Allocation of profits is discussed as a separate agenda item and the general meeting adopts a separate resolution on it.

In 2010, Nordecon AS complied with the CGR in respect of conducting general meetings.

## Board

### Responsibilities of the board

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

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

- Analyses the risks inherent in the company's operations and financial targets (including environmental, competitive and legal risks)
- Prepares relevant internal rules and regulations
- Prepares forms and instructions for the preparation of financial statements
- Establishes control and reporting systems



The board observes lawful instructions of the council of Nordecon AS. The board does its best to ensure that the company and all entities belonging to the company's Group observe effective legislation.

In 2010, the board and council of Nordecon 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 emoluments of the board

### Membership of the board

The council appoints and recalls 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 to five members who are elected for a term of three years.

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

In 2010, the board had the following members:

Name	Position/Area of responsibility	Beginning of term of office	Expiry of term of office
Jaano Vink	<b>Chairman of the Board</b> General management of the company	5 August 2002	31 July 2011
Priit Tiru	<b>Member of the Board</b> Foreign operations of the company and other Group entities	5 January 2009	30 October 2010

Based on a resolution adopted by the council, Priit Tiru who was responsible for the company's foreign operations was recalled from the board early.

### Emoluments 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 council decides the remuneration of the members of the board based on an evaluation of their activities. The council evaluates a board member's performance by taking into account the board member's responsibilities and activity, the activity of the entire board as well as the company's financial position, current financial performance and future prospects and compares the latter with the corresponding indicators of other companies in the same industry.

The service fee includes a 10% fee for maintaining the confidentiality of business secrets and adhering to the prohibition on competition. Under the service agreement, a member of the board may receive the following additional monetary emoluments whose payment is at the discretion of the council:

- Additional remuneration for strong operating results
- Additional remuneration for exceeding the agreed operating results
- Benefits for adhering to the prohibition on competition after the expiry of the service agreement (up to twelve-fold average monthly service fee together with additional remuneration, decided at the discretion of the council)
- Benefits for early termination of the service agreement (six- to twelve-fold average monthly service fee together with additional remuneration). Termination benefits depend on the board member's previous performance and will not be provided if it clearly damages the company's interests.

The company does not have long-term benefit programs for members of the board (pension programs) and has not issued share options to members of the board. Nor are the emoluments of the board linked to changes in the company's share price.

In 2010, the emoluments of the members of the board of Nordecon AS including social security tax totalled 3.1 million kroons (0.2 million euros). The corresponding figure for 2009 was 3.3 million kroons (0.2 million euros). In 2009 the board had three members. The emoluments comprise only the remuneration calculated in accordance with the service contract and the termination benefits of one board member. As the company has not achieved its operating targets, board members have not been provided and have not received any additional remuneration.

## Conflict of interest

Members of the board may engage in other duties and work assignments only with the consent of the council.

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

Members of the board are required to inform other members of the board and the chairman of the council of any business offerings made to them, their close family members or another person related to them that are related to the company's business activity. The council decides the performance of a transaction between the company and a member of the board, a board member's close family member or a person related to a board member, if the transaction is significant for the company, and determines the terms of such transactions.

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 2010, Nordecon AS complied with the CGR in respect of the activities of the board.

## Council

### Responsibilities of the council

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

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

The council adopts its decisions at meetings that have the sole authority to:

- Approve the strategy
- Approve long-term development plans
- Approve budgets
- Appoint members of the board and the chairman of the board and recall 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 conduct legal disputes with members of the board on behalf of the company

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 company's board.

The chairman of the council communicates with the board, particularly the chairman of the board, on a regular basis in order to discuss matters related to the company's strategy, business operations and risk management.

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 and acquisition, divestment or dissolution of a company
- Opening and closing of foreign branches and agencies
- Transfer and encumbrance of immovable properties and registered movables (except cars)
- Non-current asset transfers and investments not fixed in the annual budget

- Assumption, granting and guaranteeing of loans and other obligations not fixed in the annual budget and falling 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 months.

In 2010, the council of Nordecon AS had nine meetings.

### Membership and emoluments of the council

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

According to the articles of association, the council must have three to seven members. The exact number is decided by the general meeting. Members of the council are elected for a term of five years. Members of the council elect a chairman from among themselves. In 2010, 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 AS Nordic Contractors	9 January 2006	13 May 2015 <sup>1</sup>
Alar Kroodo	Vice Chairman of the Council, representative of small shareholders	9 January 2006	13 May 2015 <sup>1</sup>
Andri Hõbemägi	Member of the Council, representative of AS Nordic Contractors	14 May 2008	13 May 2013
Ain Tromp	Member of the Council, representative of small shareholders	9 January 2006	13 May 2015 <sup>1</sup>
Tiina Mõis	Member of the Council, independent	9 January 2006	13 May 2015 <sup>1</sup>
Meelis Milder	Member of the Council, independent	9 January 2006	13 May 2015 <sup>1</sup>

<sup>1</sup> The powers of the members of the council were extended for another term of five years at a general meeting held on 14 May 2010.

On deciding the remuneration of the council and its payment procedure, the general meeting considers the nature and scope of the duties of the council as well as the financial position of the company. Depending on the nature of the work of the council, shareholders may also take into account the specific nature of the work of the chairman of the council.

On 1 April 2006, the general meeting of the shareholders of Nordecon AS adopted a resolution on the remuneration of the council. A council member's service fee is 10,000 kroons (639 euros) per month. The vice chairman's service fee is 20,000 kroons (1,278 euros) per month and the chairman's service fee is 30,000 kroons (1,917 euros) per month. Council members are not entitled to any additional remuneration or termination benefits.

In 2010, the remuneration of the members of the council of Nordecon AS totalled 1.4 million kroons (0.1 million euros). The corresponding figure for 2009 was also 1.4 million kroons (0.1 million euros).

According to the CGR, half of the members of the council have to be independent. The council of Nordecon AS has two independent members. The composition of the council of Nordecon AS has been approved by the general meeting of Nordecon AS and to date there has been no criticism of the independence of the council. Accordingly, Nordecon AS is not in compliance with the above requirement of CGR.

### Conflict of interest

Members of the council have to avoid conflicts of interest. In their activity as members of the council, they have to put the company's interests before those of their own or third parties. Members of the council may not use business offerings made to the company for their personal gain.

A member of the council may not vote at a meeting in matters concerning provision of consent for a transaction between Nordecon AS and the member of the council or a similar conflict of interest involving a party related to the member of the council. A member of the council may not compete with Nordecon AS without the consent of the general meeting or use for personal gain any business offerings made to the company.

Until the date this annual report is authorised for issue, members of the council have not notified the company of any conflicts of interest.

In 2010, Nordecon AS complied with the CGR in respect of the activities of the council or has explained any non-compliance.

## Cooperation of the board and the council

The company's board and council cooperate in ensuring ongoing and effective information exchange. Members of the board participate in quarterly council meetings that review the company's performance. In addition, as a rule the chairman of the board is invited to other council meetings that examine matters related to the operation of the company.

The board notifies the council on a regular basis of all significant circumstances relating to the company's operation, business planning, operational and other risks and risk management. In particular, the board draws the council's attention to such changes in the company's operation that cause deviations from previously approved objectives and plans and provides explanations for such changes. The information is communicated forthwith and in full.

In 2010, the board and the council cooperated actively in approving the Group's development plan and new strategic objectives for the period 2010-2013. The board manages the company in accordance with the strategic instructions of the council and discusses strategic management issues with the council on a regular basis.

In 2010, Nordecon AS complied with the CGR in respect of the cooperation of the board and the council.

## Public disclosure of information

In disseminating information, Nordecon AS endeavours to treat all shareholders as equally and fairly as possible and to communicate all significant events without any undue delay. Observance of the equal treatment principle does not revoke the right to postpone the disclosure of inside information or the right to provide unpublished inside information to persons entitled to it. The main information channels that the company uses for notifying shareholders, investors and other stakeholders are the information system of the NASDAQ OMX Tallinn Stock Exchange and the company's website.

In respect of undisclosed information, the company observes the rules of the NASDAQ OMX Tallinn Stock Exchange and the provisions of the Estonian Securities Act. The company determined that in 2010 the threshold for notifying of significant construction contracts was 50.0 million kroons (3.2 million euros). In 2010 Nordecon AS made 33 stock exchange announcements that were released concurrently in Estonian and in English via the information system of the NASDAQ OMX Tallinn Stock Exchange.

### Violations of the disclosure requirements

In 2010 the company was sanctioned for one instance of non-compliance with the information disclosure requirements. Nordecon AS published the notice of calling the extraordinary general meeting in the information system of the NASDAQ OMX Tallinn Stock Exchange on the same day but a few hours later than it was published in the printed version of the national daily *Eesti Päevaleht*. The Listing and Supervisory Committee of the NASDAQ OMX Tallinn Stock Exchange found that by that Nordecon AS had breached the information disclosure requirements established for issuers and issued a caution to Nordecon AS.

### Disclosure of information on the company's website

Nordecon AS discloses the following information on its corporate website at [www.nordecon.com](http://www.nordecon.com) or, via links, on the website of the NASDAQ OMX Tallinn Stock Exchange. The information is disclosed in Estonian and in English.

- A brief description of the company
- Description of the security and trading statistics
- Information on the company's shareholder structure
- The company's articles of association and a description of its strategy
- Annual and interim financial reports
- Stock exchange announcements and presentations designed for investors
- Information on general meetings
- Membership of the council and the board
- Information on the company's auditor
- Corporate governance report
- Financial calendar

## Meetings with investors and financial analysts

Meetings with investors are organised as and when requested by investors. The company exchanges information with journalists and analysts with due care and deliberation. In communicating with an analyst, the company refrains from actions that might compromise the independence of the analyst or the company. The company does not arrange meetings with analysts or presentations for investors directly before the date on which a financial report (interim or annual report) is disclosed.

The presentations used at meetings with investors are published through the information system of the stock exchange and are also made available on the company's website. In 2010, the company did not publish the time schedule for meetings with investors and analysts on its website because it did not deem this important.

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

In 2010, Nordecon AS complied with the information disclosure provisions of the CGR except for Article 5.6 that was complied with in part. However, the company 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 AS. The consolidated financial statements of Nordecon 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 the OMX Tallinn Stock Exchange, the Estonian Commercial Code and other applicable legislation.

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

In 2010, the company's council did not deem it necessary to invite the company's auditor to the meeting that approved the annual report because the auditor had issued an unqualified opinion on the financial statements.

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

The company discloses in the annual report financial information on companies that have not been consolidated but in which the company has a significant interest (note 13) and transactions with shareholders (note 37).

### Auditing

The external auditor of Nordecon AS is appointed by the general meeting. The board arranges a tender with a view to signing an audit services agreement for three 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 AS organised a new tender for appointing an auditor for the period 2008-2010. The general meeting decided that KPMG Baltics OÜ should be appointed as auditor of the company and the board signed an audit services agreement with KPMG Baltics OÜ for the financial years 2008, 2009 and 2010. Therefore, in the reporting period, the company did not have to observe the requirements of Article 6.2 of the CGR that regulate the activities of the company's managing and governing bodies, the general meeting and the auditor upon the appointment of a new auditor by the general meeting.

In the reporting period the auditor did not notify the council of having become aware of any significant circumstances that might influence the work of the council or management of the company. Nor did the auditor notify the council of any risks to the auditor's independence or professionalism.

In the reporting period, the auditor's services included the agreed audit services as well as tax advice, tax training, and translation services and a review of the company's financial statements on the company's merger with its subsidiaries. Altogether, the fees paid to the auditor for services provided in 2010 totalled 0.6 million kroons (0.04 million euros).

In 2010, Nordecon AS complied with the CGR in respect of financial reporting and auditing.

## Consolidated financial statements

### Statement of management's responsibility

The board of Nordecon AS acknowledges its responsibility for the preparation of the Group's consolidated financial statements as at and for the year ended 31 December 2010 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 consolidated 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 (18 April 2011) have been properly recognised and disclosed; and
- Nordecon AS and its subsidiaries are going concerns.

Jaano Vink

Chairman of the Board



18 April 2011

Avo Ambur

Member of the Board



18 April 2011

Marko Raudsik

Member of the Board



18 April 2011

Erkki Suurorg

Member of the Board



18 April 2011

## Consolidated statement of financial position

As at 31 December	Note	2010	EEK'000 2009	2010	EUR'000 2009
<b>ASSETS</b>					
<b>Current assets</b>					
Cash and cash equivalents	8	91,018	225,191	5,818	14,392
Trade and other receivables	9	489,208	644,704	31,266	41,204
Prepayments	10	16,581	30,595	1,060	1,955
Inventories	11	390,891	389,328	24,982	24,883
Non-current assets held for sale	12	5,027	4,617	321	295
<b>Total current assets</b>		<b>992,725</b>	<b>1,294,435</b>	<b>63,447</b>	<b>82,729</b>
<b>Non-current assets</b>					
Investments in equity-accounted investees	13	1,542	2,191	99	140
Other investments	15	414	414	26	26
Trade and other receivables	9	34,657	33,329	2,215	2,130
Investment property	16	77,135	87,975	4,930	5,623
Property, plant and equipment	17	141,417	204,115	9,038	13,045
Intangible assets	18	242,296	268,233	15,486	17,143
<b>Total non-current assets</b>		<b>497,461</b>	<b>596,257</b>	<b>31,794</b>	<b>38,107</b>
<b>TOTAL ASSETS</b>		<b>1,490,186</b>	<b>1,890,692</b>	<b>95,241</b>	<b>120,836</b>
<b>LIABILITIES</b>					
<b>Current liabilities</b>					
Loans and borrowings	19	300,909	262,959	19,231	16,806
Trade payables	21	272,695	377,925	17,429	24,154
Other payables	22	53,926	94,580	3,446	6,044
Deferred income	23	69,236	136,438	4,425	8,720
Provisions	24	18,144	10,364	1,160	662
<b>Total current liabilities</b>		<b>714,910</b>	<b>882,266</b>	<b>45,691</b>	<b>56,386</b>
<b>Non-current liabilities</b>					
Loans and borrowings	19	240,589	294,328	15,377	18,811
Trade payables	21	3,362	4,846	215	310
Other payables	22	1,500	1,500	96	96
Provisions	24	6,621	7,041	423	450
<b>Total non-current liabilities</b>		<b>252,072</b>	<b>307,715</b>	<b>16,111</b>	<b>19,667</b>
<b>TOTAL LIABILITIES</b>		<b>966,982</b>	<b>1,189,981</b>	<b>61,802</b>	<b>76,053</b>
<b>EQUITY</b>					
Share capital	25	307,567	307,567	19,657	19,657
Statutory capital reserve	25	40,024	40,012	2,558	2,557
Translation reserve	25	-3,640	-3,201	-233	-205
Retained earnings		160,488	345,280	10,257	22,067
<b>Total equity attributable to equity holders of the parent</b>		<b>504,439</b>	<b>689,658</b>	<b>32,240</b>	<b>44,077</b>
<b>Non-controlling interest</b>		<b>18,765</b>	<b>11,053</b>	<b>1,199</b>	<b>706</b>
<b>TOTAL EQUITY</b>		<b>523,204</b>	<b>700,711</b>	<b>33,439</b>	<b>44,783</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>1,490,186</b>	<b>1,890,692</b>	<b>95,241</b>	<b>120,836</b>



## Consolidated statement of comprehensive income

	Note	2010	EEK'000 2009	2010	EUR'000 2009
Revenue	27	1,553,890	2,418,880	99,312	154,594
Cost of sales	29	-1,564,841	-2,282,575	-100,012	-145,883
<b>Gross profit/loss</b>		<b>-10,951</b>	<b>136,305</b>	<b>-700</b>	<b>8,711</b>
Distribution expenses		-6,276	-9,416	-401	-602
Administrative expenses	30	-76,459	-125,206	-4,887	-8,002
Other operating income	31	12,828	25,592	820	1,636
Other operating expenses	31	-59,565	-154,014	-3,807	-9,843
<b>Operating loss</b>		<b>-140,423</b>	<b>-126,739</b>	<b>-8,975</b>	<b>-8,100</b>
Finance income	32	47,863	86,513	3,059	5,529
Finance expenses	32	-99,171	-33,934	-6,338	-2,169
<b>Net finance expense/income</b>		<b>-51,308</b>	<b>52,579</b>	<b>-3,279</b>	<b>3,360</b>
Share of loss of equity-accounted investees	13	-8,097	-7,666	-517	-490
<b>Loss before income tax</b>		<b>-199,828</b>	<b>-81,826</b>	<b>-12,771</b>	<b>-5,230</b>
Income tax income/expense	33	529	-7,618	33	-487
<b>Loss for the period</b>		<b>-199,299</b>	<b>-89,444</b>	<b>-12,738</b>	<b>-5,717</b>
<b>Other comprehensive income/expense:</b>					
Exchange differences on translating foreign operations		-439	905	-28	58
Total other comprehensive income/expense for the period		<b>-439</b>	905	<b>-28</b>	58
<b>TOTAL COMPREHENSIVE EXPENSE FOR THE PERIOD</b>		<b>-199,738</b>	<b>-88,539</b>	<b>-12,766</b>	<b>-5,659</b>
<b>Loss attributable to:</b>					
- Owners of the parent	26	-184,792	-45,740	-11,811	-2,923
- Non-controlling interests		-14,507	-43,704	-927	-2,794
<b>Loss for the period</b>		<b>-199,299</b>	<b>-89,444</b>	<b>-12,738</b>	<b>-5,717</b>
<b>Total comprehensive expense attributable to:</b>					
- Owners of the parent		-185,231	-44,835	-11,839	-2,865
- Non-controlling interests		-14,507	-43,704	-927	-2,794
<b>Total comprehensive expense for the period</b>		<b>-199,738</b>	<b>-88,539</b>	<b>-12,766</b>	<b>-5,659</b>
<b>Earnings per share attributable to owners of the parent:</b>					
Basic earnings per share (EEK/EUR)	26	-6.01	-1.49	-0.38	-0.09
Diluted earnings per share (EEK/EUR)	26	-6.01	-1.49	-0.38	-0.09



## Consolidated statement of cash flows

	Note	2010	EEK'000 2009	2010	EUR'000 2009
<b>Cash flows from operating activities</b>					
Cash receipts from customers		1,888,836	3,337,467	120,719	213,303
Cash paid to suppliers		-1,650,736	-2,729,303	-105,501	-174,434
VAT paid		-61,175	-70,313	-3,910	-4,494
Cash paid to and for employees		-233,969	-427,098	-14,953	-27,296
Income taxes paid		-1,371	-10,858	-88	-694
<b>Net cash used in/from operating activities</b>		<b>-58,415</b>	<b>99,895</b>	<b>-3,733</b>	<b>6,385</b>
<b>Cash flows from investing activities</b>					
Acquisition of property, plant and equipment		-3,056	-2,356	-195	-152
Acquisition of intangible assets		0	-7,609	0	-486
Proceeds from sale of property, plant and equipment and intangible assets		13,299	6,328	850	404
Proceeds from sale of investment properties		11,100	11,078	709	708
Acquisition of subsidiaries, net of cash acquired	7	14	-6,614	1	-423
Proceeds from disposal of subsidiaries, net of cash transferred	7	-9,623	157	-615	10
Acquisition of associates	13	-34	-6,000	-2	-383
Proceeds from disposal of associates		0	6,724	0	430
Acquisition of interests in joint ventures		0	-20,000	0	-1,278
Proceeds from sale of other investments		0	275	0	18
Loans granted		-8,583	-80,828	-549	-5,166
Repayment of loans granted		2,777	29,897	177	1,911
Interest received		4,042	14,907	258	953
Dividends received		61	61	4	4
<b>Net cash from/used in investing activities</b>		<b>9,997</b>	<b>-53,980</b>	<b>638</b>	<b>-3,450</b>
<b>Cash flows from financing activities</b>					
Proceeds from loans received		103,931	343,242	6,642	21,937
Repayment of loans received		-134,824	-348,364	-8,617	-22,265
Dividends paid	25, 33	0	-31,933	0	-2,041
Payment of finance lease liabilities	20	-37,230	-51,029	-2,379	-3,261
Interest paid		-17,554	-28,284	-1,122	-1,808
Other payments made		-236	-487	-15	-31
<b>Net cash used in financing activities</b>		<b>-85,913</b>	<b>-116,855</b>	<b>-5,491</b>	<b>-7,469</b>
<b>Net cash outflow</b>		<b>-134,331</b>	<b>-70,940</b>	<b>-8,586</b>	<b>-4,534</b>
<b>Cash and cash equivalents at beginning of period</b>		<b>225,191</b>	<b>296,184</b>	<b>14,392</b>	<b>18,930</b>
Effect of exchange rate fluctuations		158	-53	12	-34
Decrease in cash and cash equivalents		-134,331	-70,940	-8,586	-4,534
<b>Cash and cash equivalents at end of period</b>		<b>91,018</b>	<b>225,191</b>	<b>5,818</b>	<b>14,392</b>

## Consolidated statement of changes in equity

EEK`000	Equity attributable to equity holders of the parent					Non-controlling interest	Total
	Share capital	Statutory capital reserve	Translation reserve	Retained earnings	Total		
<b>At 31 December 2008</b>	<b>307,567</b>	<b>34,800</b>	<b>-4,106</b>	<b>426,995</b>	<b>765,256</b>	<b>98,056</b>	<b>863,312</b>
Loss for the period	0	0	0	-45,740	-45,740	-43,704	-89,444
Other comprehensive income	0	0	905	0	905	0	905
Dividends declared (note 25)	0	0	0	-30,757	-30,757	-1,176	-31,933
Transfer to capital reserve	0	5,212	0	-5,212	0	0	0
Changes in non-controlling interest	0	0	0	-6	-6	-42,123	-42,129
<b>At 31 December 2009</b>	<b>307,567</b>	<b>40,012</b>	<b>-3,201</b>	<b>345,280</b>	<b>689,658</b>	<b>11,053</b>	<b>700,711</b>
<b>At 31 December 2009</b>	<b>307,567</b>	<b>40,012</b>	<b>-3,201</b>	<b>345,280</b>	<b>689,658</b>	<b>11,053</b>	<b>700,711</b>
Loss for the period	0	0	0	-184,792	-184,792	-14,507	-199,299
Other comprehensive expense	0	0	-439	0	-439	0	-439
Transfer to capital reserve	0	12	0	0	12	0	12
Changes in non-controlling interest	0	0	0	0	0	22,219	22,219
<b>At 31 December 2010</b>	<b>307,567</b>	<b>40,024</b>	<b>-3,640</b>	<b>160,488</b>	<b>504,439</b>	<b>18,765</b>	<b>523,204</b>

EUR`000	Equity attributable to equity holders of the parent					Non-controlling interest	Total
	Share capital	Statutory capital reserve	Translation reserve	Retained earnings	Total		
<b>At 31 December 2008</b>	<b>19,657</b>	<b>2,224</b>	<b>-262</b>	<b>27,290</b>	<b>48,909</b>	<b>6,267</b>	<b>55,176</b>
Loss for the period	0	0	0	-2,923	-2,923	-2,794	-5,717
Other comprehensive income	0	0	57	0	57	0	57
Dividends declared (note 25)	0	0	0	-1,966	-1,966	-75	-2,041
Transfer to capital reserve	0	333	0	-333	0	0	0
Changes in non-controlling interest	0	0	0	0	0	-2,693	-2,693
<b>At 31 December 2009</b>	<b>19,657</b>	<b>2,557</b>	<b>-205</b>	<b>22,067</b>	<b>44,077</b>	<b>706</b>	<b>44,783</b>
<b>At 31 December 2009</b>	<b>19,657</b>	<b>2,557</b>	<b>-205</b>	<b>22,067</b>	<b>44,077</b>	<b>706</b>	<b>44,783</b>
Loss for the period	0	0	0	-11,811	-11,811	-927	-12,738
Other comprehensive expense	0	0	-28	0	-28	0	-28
Transfer to capital reserve	0	1	0	0	1	0	1
Changes in non-controlling interest	0	0	0	0	0	1,420	1,420
<b>At 31 December 2010</b>	<b>19,657</b>	<b>2,558</b>	<b>-233</b>	<b>10,257</b>	<b>32,240</b>	<b>1,199</b>	<b>33,439</b>

## NOTE 1. Reporting entity

Nordecon AS (the “Company”; former name: Nordecon International AS) is a company incorporated and 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 that holds 53.67% of the shares in Nordecon AS. The shares of Nordecon AS have been listed on the NASDAQ OMX Tallinn Stock Exchange since 18 May 2006.

The business name of Nordecon International AS was changed by an extraordinary general meeting of the Company’s shareholders on 19 November 2010. The extraordinary general meeting decided that the Company’s new business name should be Nordecon AS. The new business name was adopted as of 31 December 2010. In this annual report, the former business name is referred to where necessary for legal reasons or clarity.

The consolidated financial statements of Nordecon AS (also referred to as the “Parent”) as at and for the year ended 31 December 2010 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 buildings and infrastructure construction and, within strategic limits, real estate development. In addition to Estonia, the Group operates through its subsidiaries and associates in Latvia (until February 2010), Lithuania, Ukraine, Belarus (from 2010) and Finland.

## NOTE 2. Statement of compliance and basis of preparation

### Statement of compliance

The consolidated financial statements of Nordecon AS as at and for the year ended 31 December 2010 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 (except those new standards and interpretations in note 3 that did not require retrospective recognition when applied) and have been applied consistently by all Group entities.

Under 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 and approved by the 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 were authorised for issue by the board on 18 April 2011.

### Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except that financial assets at fair value through profit or loss, available-for-sale financial assets and investment properties have been measured at fair value. The methods used to measure fair values are discussed further in notes 5 and 34.

### Functional and presentation currency

The functional currency of the Group entities is the currency of the primary economic environment in which they operate: for Estonian entities - the Estonian kroon (EEK), for Lithuanian entities - the Lithuanian litas (LTL), for Ukrainian entities - the Ukrainian hryvna (UAH), for Belarusian entities – the Belarusian ruble (BYR) and for Finnish entities – the euro (EUR). The consolidated financial statements are presented in Estonian kroons. The financial information in the primary financial statements and the notes 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 has been pegged to the euro at a fixed exchange rate (1 euro = 15.6466 Estonian kroons). Therefore, the translation of the consolidated financial statements from Estonian kroons to euros does not give rise to foreign exchange differences. Information regarding the change in functional and presentation currency is disclosed in note 38.

## Use of significant estimates and judgements

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

Although management's estimates and underlying assumptions are reviewed on 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.

In 2010 the economies of the Group's markets continued to be affected by the economic crisis that bottomed in 2009. Although the downturn was the steepest in 2009, not all economies regained their stability in 2010. As a result, management has had to make estimates and exercise judgement in an environment where reliable information on the market prices of assets is often unavailable and the outlooks of the construction and real estate markets continue to be uncertain.

**Critical judgements that have the most significant effect on the financial statements concern the following areas:**

**Recognition of construction contract revenue by reference to the stage of completion method (note 28)**

When the outcome of a construction contract can be estimated reliably, contract revenue is recognised by reference to the stage of completion of the contract activity at the reporting date. The Group estimates the stage of completion of its construction contracts using precise and systematic cost accounting, forecasting, and revenue and expense recognition and adjustment 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 and/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 profit or loss in the period in which the change is made and in subsequent periods.

In the reporting period, management had to estimate the outcome (profit/loss) of active contracts (projects in progress) more frequently than in previous periods. Because in the construction market supply currently exceeds demand, management has had to estimate the profitability of active contracts at the reporting date and where the expected outcome has been a loss, then also the size of the loss. Estimates of total contract costs depend primarily on management's estimates of the behaviour of construction prices during the remaining term of the contract.

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

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. The Group has estimated the values of unsold apartments classified as inventories by reference to the sales prices of similar apartments sold near the reporting date. The estimates were made using the calculations of the Group's internal real estate specialists. Where the sales prices of similar apartments were lower than the carrying values of the Group's unsold apartments, the unsold apartments were written down to their net realisable values.

The values of properties held for development have been estimated by reference to the valuation reports issued by certified independent real estate appraisers and the calculations of the Group's internal real estate specialists. Most of the properties are without a detailed plan and they are located in different regions across Estonia (Tallinn, Tartu and Narva). Although in 2010 the real estate market recovered slightly compared with the slump of 2008 and 2009, according to the reports issued by certified real estate appraisers, the sales prices of properties that are in their initial stages of development still cannot be measured reliably. Accordingly, the Group had no basis for restating the carrying values of such properties as at the reporting date.

**Classification and measurement of investment properties (notes 5 and 16)**

Both on initial recognition and subsequent reclassification, properties are classified to inventories, investment properties and items of property, plant and equipment 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 or both.

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

The Group determines the fair values of its investment properties on the basis of valuation reports issued by certified independent real estate appraisers. Owing to the present situation of the real estate market in the regions where the Group's investment properties are located (Tartu and Pärnu), appraisers have stated in their reports that the market

values of the properties cannot be determined because there is no reliable information for applying the sales comparison method (the most suitable of the three under the circumstances) as required by the valuation standards. Thus, the Group had no basis for restating the carrying values of its investment properties as at the reporting date.

The discounted cash flow method could not be applied owing to the early stage of development of the properties. None of them is complete and they do not generate rental income.

#### **Provisions and contingent liabilities (notes 24 and 35)**

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

The Group establishes provisions for warranty expenses. The provisions are established after the completion of construction activity and the delivery of the work to the customer. As a rule, a warranty is given for two years but in the past few years customers have started demanding longer warranty periods (three to five years). The amount of the post-construction warranty liabilities of a project is determined based on historical data on the actual warranty expenses of similar projects (0.2-0.6% of total contract revenue). Depending on the complexity of the project, the Group may recognise a warranty liability that exceeds historical data. Estimates of future warranty expenses are reviewed by a member of management.

#### **Determination of the useful lives of property, plant and equipment (note 17)**

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 18)**

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. 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). The net operating cash flows of cash-generating units do not depend on the capital structure of the specific company. Therefore, in determining the discount rate, the proportions of debt and equity capital have been identified based on the industry's average ratios in the Damodaran database. The discount rates that were used for estimating the value in use of the Group's cash-generating units ranged from 8% to 14%.

The value in use of a cash-generating unit is compared to the carrying amount of the investment made plus the carrying amount of the goodwill allocated to it. Value in use is an estimate. Therefore, any changes in selected inputs may increase or reduce the value obtained. The Group's management has performed a sensitivity analysis that reflects 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 average discount rate does not exceed 1.5%, assuming all other variables remain constant.

## NOTE 3. Changes in accounting policies and presentation of financial statements

### Changes in accounting policies

The preparation of the Group's financial statements was influenced by the following amendments to International Financial Reporting Standards as adopted by the European Union that became effective for annual periods beginning on 1 January 2010:

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

The Group had already implemented the new terminology introduced by the Standard and the principles for accounting for disposals of interests in subsidiaries provided by the Standard. The amendments did not require retrospective adjustment of transactions.

The following new and revised standards, amendments to standards, and interpretations had no impact on the preparation of the Group's financial statements:

- IFRS 3 (revised) – *Business Combinations*
- Amendment to IFRS 2 – *Group Cash-settled Share-based Payment Transactions*
- IFRS 5 (amendments) – *Non-current Assets Held for Sale and Discontinued Operations*
- IAS 1 (amendments) – *Presentation of Financial Statements*
- IAS 36 (amendments) – *Impairment of Assets* Effective for annual periods beginning on or after 1 January 2010
- Amendments to IFRIC 9 – *Reassessment of Embedded Derivatives* and IAS 39 – *Financial Instruments: Recognition and Measurement*
- IFRIC 12 – *Service Concession Arrangements*
- IFRIC 16 – *Hedges of a Net Investment in a Foreign Operation*
- IFRIC 15 (revised) – *Agreements for the Construction of Real Estate*
- IFRIC 17 – *Distribution of Non-cash Assets to Owners*
- IFRIC 18 – *Transfers of Assets from Customers*

### New and revised standards and interpretations issued as at 31 December 2010

As at the reporting date a number of new, amended and revised International Financial Reporting Standards and interpretations adopted by the EU have been issued but are not yet effective and have therefore not been applied in preparing these consolidated financial statements. The list below is not a complete list of such standards and interpretations but comprises only those that will probably have an effect on or will be applied in preparing the Group's consolidated financial statements for subsequent periods:

- Revised IAS 24 *Related Party Disclosures* (effective for annual periods beginning on or after 1 January 2011)

The amendment exempts a government-related entity from the disclosure requirements in relation to related party transactions and outstanding balances, including commitments, with (a) a government that has control, joint control or significant influence over the reporting entity; and (b) another entity that is a related party because the same government has control, joint control or significant influence over both the reporting entity and the other entity. The revised Standard requires specific disclosures to be provided if a reporting entity takes advantage of this exemption.

The revised Standard also amends the definition of a related party which resulted in new relations being included in the definition, such as, associates of the controlling shareholder and entities controlled, or jointly controlled, by key management personnel.

The revised IAS 24 may result in new relations requiring disclosure in the Group's consolidated financial statements.



## 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 and acquisition of goodwill

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 profit and loss and the goodwill acquired from the business combination is recognised in the Group's statement of financial position from the date of acquisition.

Positive goodwill is the excess of the cost of the business combination over the acquirer's interest in the fair value of the net assets acquired. Goodwill acquired in a business combination represents a payment made by the acquirer 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 reporting date. Subsequent to initial recognition, goodwill is measured at cost less any accumulated impairment losses (see the policy *Impairment of assets*).

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

#### Business combinations of entities under common control

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

#### 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% of the voting power of the investee.

An interest in a joint venture is recognised on the basis of a contractual arrangement whereby two or more parties make strategic financial and operating decisions relating to an economic activity that is under their joint control subject to unanimous consent.

Investments in associates and jointly controlled entities 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, the Group 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.

## Translation of foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, have been translated to Estonian kroons at exchange rates at the reporting date. The income and expenses of foreign operations have been translated to Estonian kroons at exchange rates at the dates of the transactions or the average exchange rate for the reporting period when the exchange rate between the Estonian kroon and the foreign currency has been stable. Exchange differences on translating foreign operations have been recognised directly in other comprehensive income or expense. 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 reporting date:

	Date	Estonian kroon (EEK)	Latvian lats (LVL)	Lithuanian litas (LTL)	Ukrainian hryvna (UAH)	Belarusian ruble (BYR)
1 euro (EUR)	31 December 2009	15.6466	0.7096	3.4528	11.5920	4,124.30
1 euro (EUR)	31 December 2010	15.6466	0.7098	3.4528	10.6454	4,009.64

## Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities using the exchange rates quoted by the central banks of their respective countries 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 rates at that date. Foreign currency differences arising on retranslation are recognised in profit or loss. 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.

Non-monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated using the exchange rate at the date of acquisition except for assets measured at fair value that are retranslated to the functional currency using the exchange rate at the date the fair value was determined.

## Financial assets

A financial asset is recognised initially at fair value plus 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 profit or loss.

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 and permitted, an item is 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 reporting date without any deduction for the transaction costs that may be incurred on its sale or other disposal. A gain or loss on a change in fair value is recognised in profit or loss (within in finance income or finance expenses as appropriate). The fair value of a listed security is determined based on its quoted bid price at the close of business at the reporting date and the official exchange rate of the Bank of Estonia at that date. The fair value of an unlisted security is established by using publicly 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 at fair value through profit or loss as well as any interest and dividend income on the financial asset is recognised in the statement of comprehensive income in finance income and finance expenses as appropriate.

#### **Held-to-maturity investments**

Investments that the Group has the positive intention and ability to hold to maturity are recognised initially at their fair value plus any directly attributable transaction charges. Subsequent to initial recognition held-to-maturity investments 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**

Loans and receivables with fixed or determinable payments that have not been acquired for resale are recognised initially at their fair value plus any directly attributable transaction charges. Subsequent to initial recognition, loans and receivables are measured at their amortised cost using the effective interest rate method. The carrying amounts of loans and receivables are adjusted for any impairment losses incurred. Impairment losses on receivables are recognised in other operating expenses and impairment losses on loans are recognised in finance expenses. When an impairment loss previously recognised for a loan or receivable is reversed, the reversal is recognised as a reduction of the originally recorded expense.

Interest income on loans and receivables is recognised in profit or loss (in finance income).

#### **Available-for-sale financial assets**

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

A gain or loss on a change in the value of an available-for-sale financial asset is recognised in other comprehensive income or expense and presented in the fair value reserve in equity. When the asset is derecognised or becomes impaired the cumulative gain or loss recognised in the fair value reserve is recognised in finance income or expense. When an available-for-sale financial asset becomes impaired, the amount of the cumulative gain or loss that is removed from the fair value reserve and recognised in finance expense 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 finance expenses.

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 for similar financial assets. Impairment losses on financial assets carried at cost are recognised in profit or loss (in finance expenses). Debt instrument's impairment losses are reversible. Such impairment losses, when applied to equity instruments, 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.

## Inventories

Materials and goods purchased for resale (including properties acquired for development) 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. Building materials acquired for construction contracts are recognised as inventories (classified as materials) until their employment in the construction process.

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

Finished goods include apartments completed by the real estate development units; the apartments are measured at the costs incurred in achieving their completion.

The cost of inventories is assigned using the weighted average cost formula. Exceptions include registered immovable properties (goods purchased for resale) whose cost is calculated and assigned using specific identification of their individual costs.

In the statement of financial position, 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. Inventory write-downs to net realisable value are recognised in the statement of comprehensive income in the cost of sales in the period in which they are performed.

## Construction work in progress

The revenues and costs of a construction contract are recognised by reference to the stage of completion of the contract activity at the reporting date. The stage of completion of a contract is determined as the proportion that contract costs incurred for work performed until the reporting 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 reporting date progress billings exceed the revenue recognised by reference to the stage of completion method, the difference is recognised in the statement of financial position as a liability. If the revenue recognised by reference to the stage of completion method exceeds progress billings, the difference is recognised in the statement of financial position as an asset.

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

## Investment property

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

An investment property is measured initially at its cost. Directly attributable transaction costs and expenditures are included in the initial measurement. After initial recognition, an investment property is measured to fair value at each reporting date. Gains and losses arising from changes in the fair value of investment property are recognised in the statement of comprehensive income 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 profit or loss 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.

## 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 are recognised as an expense as incurred.

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

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

Items of property, plant and equipment are depreciated until their residual value is equal to 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 statement of comprehensive income in 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 statement of financial position 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. Acquisition of goodwill is described in the policy *Basis of consolidation*.

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

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. A cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

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 other operating expenses.

Impairment testing is described in 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 generally 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 described otherwise in these accounting policies.

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

Asset class	Useful life in years
Licences, patents	3-5
Trademarks	5

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

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

## Impairment of assets

### Impairment of non-financial assets

The carrying amounts of the Group's non-financial assets, other than investment property, inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. An impairment loss is recognised if the carrying amount of an asset exceeds 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 in 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 assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (a cash-generating unit). 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 profit or loss. 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 profit or loss (within the same item where the original impairment loss was recognised). As an exception, impairment losses for goodwill are not reversed.

### Impairment of financial assets

A financial asset that is not a financial asset at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

The recoverable amount of a financial asset is the present value of its estimated future cash flows discounted at the asset's original effective interest rate. Impairment losses on financial assets related to operating activity (trade and other receivables) are recognised in other 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 except for items whose recoverability is supported with additional agreements or if the debtor has provided collateral. If impairment of an asset becomes obvious sooner, an impairment loss is recognised earlier.

When a financial asset for which an impairment loss has been recognised is recovered or an event occurs that reverses the impairment, the reversal is recognised in profit or loss 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 using the effective interest method. Financial liabilities are recognised using trade date accounting, i.e. at the date they are incurred (e.g. at the date when the contract or agreement is signed).

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

A financial liability is derecognised from the statement of financial position when it is discharged or cancelled or expires.

### Factoring

Accounting for proceeds from the sale of trade receivables (factoring) depends on whether the purchaser (the factor) has the right to transfer the receivable back to the seller in the event of the debtor's default (factoring with recourse) or whether there is no such right (factoring without recourse).

In the case of factoring without recourse, the proceeds are recognised as a reduction of trade receivables. The difference between the proceeds and the carrying amount of the receivables is recognised as an expense. Factoring with recourse is accounted for as a financing transaction with receivables as collateral. Until the factor receives the final payment from the debtor, the proceeds are recognised as interest-bearing financial liabilities. The difference between the proceeds and the carrying amount of the receivable are recognised in finance expenses.

### Provisions and contingent liabilities

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

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 or non-occurrence of one or more uncertain future events not within the control of the Group 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 and salaries payable and vacation pay liabilities) 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 a legal obligation to make the payments.

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 reporting 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 Group'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 finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset to the lessee. Title may or may not be eventually transferred. 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 being sold under a finance lease in its statement of financial position 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.

Under operating leases, the leased assets are carried in the statement of financial position 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 Estonian Commercial Code, the statutory capital reserve has to amount to at least 10% of a company's share capital. Accordingly, every year the Parent company transfers at least 5% of 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 includes the subsidiaries' capital reserves that were established at the subsidiaries at the time when the Parent had control over them.



## 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 the associated income or expense is recognised in profit or loss as it arises.

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

## Parent company and subsidiaries and 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 2010 the amount of tax payable on a dividend distribution was calculated as 21/79 of the amount of the net distribution. The tax rate will remain the same in 2011. The income tax payable on dividends is recognised in profit or loss in the period in which the dividends are declared.

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 disclosed in the notes to the financial statements as a contingent liability.

## Foreign subsidiaries and joint ventures

In Latvia, Lithuania and Ukraine and Belarus corporate profits are subject to income tax. In Latvia the tax rate is 15%, in Lithuania 15%, in Ukraine 25%. And Belarus 26.28% 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 reporting date between the tax bases and carrying amounts of assets and liabilities. A deferred tax asset is recognised in the statement of financial position only when it is probable that in the foreseeable future the entity will incur an income tax liability of a similar amount which can be offset against the deferred tax asset.

## Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other operating segments. Reportable operating segments are identified on the basis of how the internally generated financial information is used by the Group's chief operating decision maker. The chief operating decision maker is the group of persons that allocates resources to and assesses the performance of operating segments. The Group's chief operating decision maker is the board of the Parent company Nordecon AS.

## Revenue

Revenue is measured at the fair value of the consideration received or receivable taking into account the amount of any trade discounts and volume rebates allowed. 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 rendering of services

Revenue from the rendering of services is recognised by reference to the stage of completion of the transaction at the reporting date (see also the policy *Construction work in progress*).

### Revenue from the sale of goods

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership of the goods have been transferred to the buyer, it is probable that economic benefits associated with the transaction will flow to the Group, the costs incurred or to be incurred in respect of the transaction including potential returns can be measured reliably, the Group retains no continuing involvement with the goods, and the amount of the revenue can be measured reliably.

Revenue from the sale of real estate (detached houses, apartments, office premises, etc completed through development operations) is recognised 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, the costs incurred or to be incurred in respect of the transaction can be measured reliably, the Group retains no continuing involvement with the goods (and has no obligation to perform significant additional work), and the amount of the revenue can be measured reliably. As a rule, a sale is deemed to have taken place when the real right contract (contract on the transfer of title to an immovable property) has been signed. Amounts received from customers before the conclusion of the contract are recognised as deferred income.

### Finance income

Interest income is recognised as it accrues using the effective interest 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 statement of financial position 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 statement of comprehensive income, 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 profit or loss (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

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

- Credit risk
- Liquidity risk
- Market risk

The Group's risk management process is based on the premise that 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 sufficiency of the Group's equity and the Group's 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 best possible ones.

The Group establishes risk management policies and implements controls and activities that are aimed at identifying, measuring and monitoring risks and dispersing risks across time, activities and geographical areas. In financial risk management, the central role belongs to the finance and accounting department of Nordecon AS that is responsible for making risk assessments, designing relevant action plans and implementing various risk assessment and management policies. As a rule, the risk management policies established by Nordecon AS are effective also for the subsidiaries. Ultimate responsibility for risk management rests with the boards of the Group entities. Depending on the internal work arrangement, risk management may also be the responsibility of the council or a special committee formed by the council.

### Credit risk

Credit risk is the risk that a customer or counterparty to a financial instrument will cause a financial loss for the Group by failing to discharge its obligations. The Group's credit risk arises principally from trade receivables and loans granted.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, the Group's management also considers general features such as the customer's legal status (private or state-owned company), geographical location, industry, and the economic situation in the country in which the customer operates as all these factors may influence credit risk. Based on the Group's experience, private sector customers entail the highest credit risk while the credit risk of government institutions and local governments is the lowest. According to estimates, more than 50% of the Group's revenue is attributable to the latter.

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. In the case of customers with whom the Group has already been transacting business, credit risk is assessed mainly on the basis of the customer's previous settlement behaviour. In the case of high risk counterparties, services are rendered and goods are sold on a prepayment basis only.

The Group does not require collateral (e.g. payment guarantees issued by banks) in respect of trade receivables unless the recoverability of a receivable has become doubtful and the Group has requested additional settlement guarantees from the counterparty. The loans granted by the Group have to be secured with mortgages, sureties or guarantees provided by third parties.

When a credit loss is anticipated, the receivables and loans involved are impaired. As a rule, impairment losses are based on probable credit losses related to specific counterparties. In accordance with the Group's accounting policies, all receivables that are more than 180 days overdue and in respect of which there is no additional settlement agreement with the debtor are recognised as an expense.

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

## Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. Free funds that are not part of working capital are held in highly liquid interest-bearing money market instruments issued by banks or are deposited for a short term (up to 3 months). The Group's liquidity is influenced, first and foremost, by the following factors:

- the ability of Group entities to generate independent net operating cash inflow and the dependence of the ability on the seasonal nature of the construction activity (the solvency of customers and/or counterparties) as well as the relationship between demand and supply in the market;
- the volume and pace of acquiring new investments;
- the settlement schedules fixed in its loan and lease agreements.

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 that 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. At the reporting date, the Group had available to it the following overdraft facilities:

- an overdraft facility denominated in euros of 3,619 thousand kroons (231 thousand euros) that is renewable every 12 months and has a fixed interest rate of 3.82% per year;
- an overdraft facility denominated in euros of 13,583 thousand kroons (868 thousand euros) that will expire in autumn 2011 (renewable) and has a floating interest rate of 2% plus the bank's base interest rate per year.

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

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

## Market risk

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

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

As from 1 January 2011 the official currency of Estonia is the euro. The switchover was conducted at the historical exchange rate of 1 euro = 15.6466 kroons. Thus, from 2011 the contracts signed by Group entities in previous periods in euros do not involve a currency risk.

The Ukrainian national currency the hryvna (UAH) floats against other currencies. The Ukrainian Group entities' currency risk exposure arises from financial instruments that are denominated in currencies other than the hryvna, for example USD- or EUR-based loan and lease liabilities. In recent periods, the proportion of such liabilities has decreased significantly and currency risk is no longer significant. A higher risk of exchange losses arises from settlements under construction contracts denominated in UAH. The Group has attempted to mitigate its Ukrainian currency risk exposure by linking the payments receivable for a financial asset, where possible, to the EUR or USD exchange rate effective at the date of acquisition of the financial asset. In 2010, the Group's foreign exchange losses from Ukrainian operations totalled 6,994 thousand kroons (447 thousand euros). At the reporting date, the Group's non-Ukrainian entities had no financial instruments denominated in UAH. In 2011 the Group's Ukrainian operations will not be extensive, which will reduce the Group's currency risk exposures.

The Belarusian national currency, the ruble (BYR), also floats against other currencies. The Belarusian subsidiary's currency risks are similar to those of the Ukrainian ones. In 2010, the Belarusian ruble weakened against the euro by 3%. The Group's Belarusian subsidiary does not have financial instruments denominated in foreign currency. Therefore, the risk of Belarusian foreign exchange losses is not significant. The Group does not intend to expand its operations in Belarus and therefore no additional risk management activities have been undertaken.

At the reporting date, the Group had no currency risk exposures in Lithuania because the Group's Lithuanian operations have been suspended and the Lithuanian subsidiary does not have financial investments. At the reporting date, the Group's non-Lithuanian entities had no financial instruments denominated in Lithuanian litas (LTL). At the beginning of the reporting period the Group disposed of its Latvian operations and is no longer exposed to foreign exchange risks arising from the Latvian lats through its foreign subsidiaries. At the reporting date, the Group's Parent and subsidiary companies had no financial instruments denominated in the Latvian lats (LVL).

Owing to the relative insignificance of the exposures, the Group has not implemented hedging instruments to counteract the currency risk.

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 through growth in interest expense. The Group's interest rate risk is influenced by two factors: a rise in the base rates of floating interest rates (EURIBOR, EONIA or the creditor's own base rate) and operating cash flow that is insufficient for covering interest expense. The Group mitigates the first factor by observing the policy that when market interest rates are low, contracts are concluded, where possible, with a fixed interest rate although recently the banks' reluctance has made observance of the policy difficult. Thus, most new contracts have a floating interest rate. Realisation of the cash flow risk of interest payments depends on the success of the Group's operating activities. The Group does not use derivative financial instruments to hedge its interest rate risks.

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

### Country risk

The Group operates in Ukraine and Belarus. At the reporting date, revenues earned from those countries and assets located in those countries accounted for 5% and 11% (of which Ukraine 10%) of the Group's total revenue and assets respectively. The Ukrainian economy (including the construction and real estate markets) has not recovered from the downturn and outlook for recovery is pessimistic. For the Group, the Ukrainian country risk arises from an unstable and unpredictable economic and political environment. A significant proportion of the Group's assets in Ukraine is made up of loans granted and interests in companies engaged in real estate development. In Belarus, the fiscal and tax policies are under strict government control and the decisions made in those areas are not always favourable for business. The Group has not made any major investments in Belarus. The greatest risk arises from restrictions on cross-border transfers of profit.

Accordingly, the Group's management is of the opinion that the Group's financial instruments that are related to Ukraine and Belarus carry a high risk and the probability that their value may decrease in the foreseeable future is above average (see note 34).

### Determination of fair value

In accordance with the Group's accounting policies and the IFRS as adopted by the European Union disclosure requirements, the Group has to determine the fair values of its assets and liabilities. Fair values have been determined as described below.

### Financial instruments

The Group entities' main financial instruments are recognised in the statement of financial position, i.e. the Group does not have any significant off-the statement of financial position financial instruments.

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

- Trade and other receivables – the fair value assessment for trade and other receivables (except for receivables related to active construction contracts) is based on the present value of their future cash flows discounted at the market interest rate at the reporting date. Non-current fixed-interest financial assets have been discounted by applying the average market interest rate at the reporting date.
- Long-term financial assets – the fair value assessment for available-for-sale financial assets is based on the present value of their discounted future net cash flow.
- Financial liabilities – the fair value assessment for financial liabilities is based on the discounted present value of the future principal and interest payments. The discount rate applied is the average market interest rate at the reporting date.

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

### Investment property

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

- Discounted cash flow method – To calculate the value of a property's discounted cash flows, the appraiser forecasts the property's future rental income (including rental per square metre and the occupancy rate) and 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 under similar circumstances. 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 around the time the valuation is performed (the comparable transactions have to have occurred no more than a year before the valuation).
- Price in a contract under the law of obligations – The fair value of properties which at the reporting date have been sold by a contract under the law of obligations but whose real right contract<sup>2</sup> has not yet been signed is determined based on the sales price of the property in the contract under the law of obligations. The method is used for determining the fair value of a property only when the Group has reasonable assurance that the related real right contract will be concluded under the same terms and conditions (e.g. the buyer has made a substantial prepayment by the reporting date or the real right contract is concluded after the reporting date but before the date management authorises the financial statements for issue). The method is used also when a contract under the law of obligations is signed after the reporting date but the terms of the transactions have been agreed before the end of the reporting period and they have not changed significantly until the date of the transaction.

At the beginning of 2010 the Group sold the only remaining investment property that was measured using the discounted cash flow method. Since transaction terms had already been agreed, in 2009 the property was measured at its sales value including a write-down.

The Group applies the sales comparison method to investment 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 has four such properties, three of which are located in western Estonia near Pärnu (all are without detailed plans) and one is located in Tartu. The fair values of those properties were appraised by independent real estate appraisers who conducted their valuations by analysing the regional real estate markets in respect of comparable transactions. The Estonian real estate market (particularly the areas outside the capital Tallinn) has not recovered from the downturn of previous periods and therefore the number of comparable transactions suitable for conducting valuations is extremely small. Accordingly, after applying the sales comparison method, the independent appraisers decided not to express an opinion on the value of the Group's investment properties. 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 owing to the condition and location of the properties, application of other valuation methods as at the reporting date would have been impracticable. On the other hand, management is convinced that in the long-term perspective the fair values of the above investment properties have not decreased below their carrying amounts. At 31 December 2010, the total carrying value of investment properties measured using the sales comparison method was 77,135 thousand kroons (4,930 thousand euros) (see note 16).

<sup>2</sup> Under Estonian legislation, the terms and conditions of the sale of real estate and the rights and obligations of the parties are agreed in a contract under the law of obligations. Title transfers when an entry is made in the Land Register, which is done on the basis of a real right contract. The contract under the law of obligations and the real right contract may be signed simultaneously and they may be included in a single document. However, frequently a sales contract under the law of obligations is signed during the development or construction of real estate when the buyer makes a prepayment and the real right contract is signed when the real estate is completed.

## Capital management

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

The Group's gearing ratio has risen 16 percentage points compared with 2009, mainly on account of a decrease in cash and cash equivalents and the loss that has reduced the Group's equity. According to management's assessment, this is a level characteristic of construction company that is actively expanding or heavily investing in real estate. In the next few years, the Group's interest-bearing liabilities should decrease and the gearing ratio should decline. This will be more in line with the Group's strategic development plans until 2013.

Gearing ratio remains at a level that does not influence the Group's adopted capital management principles and does not require the Group to raise additional share capital. Nor does the current gearing level jeopardise the Group's ability to meet the requirements set by banks.

	2010	EEK'000 2009	2010	EUR'000 2009
Total interest-bearing liabilities	541,498	557,287	34,608	35,617
Cash and cash equivalents	-91,018	-225,191	-5,818	-14,392
Net interest-bearing liabilities	450,480	332,096	28,790	21,225
Total equity	523,204	700,711	33,439	44,783
Invested capital (interest-bearing liabilities + equity)	1,064,702	1,257,998	68,047	80,400
Ratio of interest-bearing liabilities net of cash to invested capital	42%	26%	42%	26%

### Minimum capital requirements

At the reporting date, the loan agreements signed with the banks required the Group to maintain the equity ratio (equity to equity and liabilities) at 25% or above (2010 actual: 35.1%; 2009: 37.1%).

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 391 thousand kroons (25 thousand euros).

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

## Dividend policy

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

- The dividend expectations of the controlling shareholder AS Nordic Contractors
- 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 Group

### Scope of consolidation

The consolidated financial statements of Nordecon Group as at and for the year ended 31 December 2010 comprise 23 subsidiaries, 16 of them operating in Estonia, 4 in Ukraine, 1 in Lithuania, 1 Belarus and 1 in Finland.

The Parent's interests in significant subsidiaries as at the reporting date:

Subsidiary	Core business	Country of incorporation	Ownership interest 2010 (%)	Ownership interest 2009 (%)
Nordecon Infra AS <sup>1</sup>	Infrastructure construction	Estonia	0	100
Nordecon Ehitus AS <sup>1</sup>	Buildings construction	Estonia	0	100
Nordecon Betoon OÜ	Concrete works	Estonia	52	52
Järva Teed AS	Road maintenance	Estonia	100	100
Hiiu Teed OÜ	Road maintenance	Estonia	100	100
Eston Ehitus AS	Buildings construction	Estonia	98	98
Kaurits OÜ	Rental of heavy equipment	Estonia	66	66
EE Ressursid OÜ	Geological surveying	Estonia	100	100
Kalda Kodu OÜ	Real estate development	Estonia	99	99
Magasini 29 OÜ	Real estate development	Estonia	98	0
Eurocon OÜ	Holding company (UKR)	Estonia	64	64
Eurocon Ukraine TOV	Buildings construction	Ukraine	64	64
Eurocon West TOV	Buildings construction	Ukraine	64	64
Instar Property OÜ	Real estate development	Estonia	64	64
Instar Property TOV	Real estate development	Ukraine	64	64
MP Ukraine TOV	Concrete works	Ukraine	53	53
Eurocon Stroi IOOO	Buildings construction	Belarus	100	100
Estcon Oy	Concrete works	Finland	52	100
Nordecon Infra SIA <sup>2</sup>	Infrastructure construction	Latvia	0	56
Nordecon Statyba UAB <sup>3</sup>	Buildings construction	Lithuania	70	70

<sup>1</sup> Merged with the parent Nordecon AS from 31 December 2010. <sup>2</sup> Sold. <sup>3</sup> Not active

In addition to the above, the Group includes OÜ Eesti Ehitus, OÜ Aspi, OÜ Linnaehitus, OÜ Mapri Projekt (all established for the protection of Group entities' former business names), OÜ Rendiekspert and OÜ Infra Ehitus. All of these are currently dormant.

At 31 December 2010, the Group also had interests in 5 associates (2009: 5 associates) and 1 joint venture (2009: 1 joint venture). Further information on equity-accounted investees is presented in note 13.

## NOTE 7. Business combinations: acquisitions and disposals

### Acquisitions

#### Acquisition of a majority stake in Magasini 29 OÜ

Before becoming the sole shareholder of Magasini 29 OÜ, the Group's subsidiary Eston Ehitus AS was a founder and 34% shareholder of Magasini 29 OÜ (see note 13). The remaining 66% stake was acquired through a barter transaction conducted on 5 July 2010 in which Eston Ehitus AS swapped its 34% stake in Crislivinka OÜ for a 66% stake in Magasini 29 OÜ, paying the co-investor 26 thousand kroons (2 thousand euros) for the exchange. After the transaction, Eston Ehitus AS has no ownership interest in Crislivinka OÜ. On the separation of Crislivinka OÜ, one of its two real estate holdings in Magasini street, Tallinn, along with the loan liabilities assumed for the acquisition of the property (a bank loan and a shareholder loan provided by Eston Ehitus AS) were transferred to Magasini 29 OÜ.



**Net assets of Magasini 29 OÜ at the date of acquisition (purchase price allocation)**

	EEK'000			EUR'000		
	Pre-acquisition carrying amount	Total fair value (100%)	Recognised value on acquisition 66%	Pre-acquisition carrying amount	Total fair value (100%)	Recognised value on acquisition 66%
Current assets	40	40	26	3	3	2
Non-current assets	32,300	32,300	21,318	2,064	2,064	1,362
Current liabilities	39,444	39,444	26,033	2,521	2,521	1,664
Non-current liabilities	0	0	0	0	0	0
<b>Total net assets</b>	<b>-7,104</b>	<b>-7,104</b>	<b>-4,689</b>	<b>-454</b>	<b>-454</b>	<b>-300</b>
Goodwill			4,715			301
Cost			26			2
Paid in cash			26			2

Negative net assets result from the takeover of loans from owners which in the next period, after appropriate formalities, will be transformed into share capital in order to ensure positive net assets.

The goodwill arising on the acquisition of 4,715 thousand kroons (301 thousand euros) was written down in full (see note 18) because the expected discounted future cash flow from the development project was not sufficient for covering the goodwill.

## Disposals of subsidiaries

### Disposal of Nordecon Infra SIA

In February 2010, Nordecon AS sold its 56% stake in the Latvian subsidiary Nordecon Infra SIA. Nordecon Infra SIA operated mainly in the Riga region in Latvia and its core business was the construction of water and wastewater networks.

At the date of sale, the share capital of Nordecon Infra SIA amounted to 3,045 Latvian lats (approximately 67 thousand kroons/4.3 thousand euros). The investment was sold to a non-controlling shareholder for 100 kroons (6.3 euros). In the second half of 2009, Nordecon Infra SIA operated with a loss and, therefore, its equity was negative. After the transaction, the Group recognised a sales gain of 32,594 thousand kroons (2,083 thousand euros), which was recorded in finance income.

In connection with the sale of Nordecon Infra SIA, the Group derecognised goodwill of 1,710 thousand kroons (109 thousand euros) acquired on the acquisition of the subsidiary. Associated expense was recorded in other operating expenses. After the sale, the Group wrote down loans to Group companies and other receivables because the recovery of items due from Nordecon Infra SIA was doubtful. Write-down expenses amounted to 14,175 thousand kroons (906 thousand euros) and 343 thousand kroons (22 thousand euros) respectively. Expenses from the write-down of loans were recognised in finance expenses and expenses from the write-down of other receivables were recognised in other operating expenses. The Group was the surety (guarantor) of the subsidiary's liabilities. In the reporting period, the Group had to cover those liabilities to the extent of 26,714 thousand kroons (1,707 thousand euros). The expense was recognised within finance expenses. Altogether, the net result of the disposal of the subsidiary was a loss of 10,348 thousand kroons (661 thousand euros). See also notes 18, 31 and 32.

The Group will remain liable for the construction contract guarantees (mainly warranties) issued in its name to the Latvian customers. At the reporting date, the unexpired balance of such long-term guarantees was 31,124 thousand kroons (1,989 thousand euros).

The Group discontinued consolidation of the Latvian subsidiary from January 2010 because after the date of sale it was no longer possible to obtain reliable financial data on the entity.

The effect of the discontinuance of the consolidation on major items in the statement of financial position was as follows.

Line item in statement of financial position	Decrease EEK'000	Decrease EUR'000
Cash and cash equivalents <sup>1</sup>	9,834	629
Trade and other receivables	86,278	5,514
Property, plant and equipment	18,736	1,197
Intangible assets	21,042	1,345
Loans and borrowings	44,823	2,865
Trade payables	101,647	6,496
Other payables	29,076	1,858

<sup>1</sup> In the statement of cash flows, the item is reported on the line *Disposal of subsidiaries, net of cash transferred*.

### Disposal of Bukovina Development TOV

On 15 February 2010, Eurocon Ukraine TOV sold its 99% stake in the Ukrainian company Bukovina Development TOV. The Group's stake in Eurocon Ukraine TOV is 64%. Bukovina Development TOV never conducted any business operations. After the transaction, the Group has no stake in Bukovina Development TOV. As a result of the transaction, the Group recognised finance income of 32 thousand kroons (2 thousand euros) (see note 32). Transaction proceeds totalled 1 thousand Ukrainian hryvnas which at the exchange rate of the date of the transaction amounted to 1 thousand kroons (0.1 thousand euros).

### Disposal of Kaasa Vara OÜ

In the reporting period, the Group sold the subsidiary Kaasa Vara OÜ that had been established in 2010. The company was dormant and it was divested for an amount equal to the contribution made in its capital, i.e. 40 thousand kroons (3 thousand euros).

### Other proceeds from disposal of subsidiaries

In 2010 the Group received 170 thousand kroons (11 thousand euros) of the contractual sales price of EA Reng TOV that was divested in 2009.

## Amounts paid in cash on the acquisition of subsidiaries

The net amount presented in the statement of cash flows in respect of the acquisition of subsidiaries comprises the following items:

	EEK'000		EUR'000		Year of acquisition
	Paid in 2010	Paid in 2009	Paid in 2010	Paid in 2009	
Magasini 29 OÜ	-26	0	-2	0	2010
SIA LCB	0	-7,788	0	-498	2009
DSN Ehitusmasinad OÜ	0	-700	0	-45	2009
<b>Total cash outflow</b>	<b>-26</b>	<b>-8,488</b>	<b>-2</b>	<b>-543</b>	
Cash inflow on acquisition	40	1,874	3	120	
<b>Net cash flow</b>	<b>14</b>	<b>-6,614</b>	<b>1</b>	<b>-423</b>	

## NOTE 8. Cash and cash equivalents

	EEK'000		EUR'000	
	31 Dec 2010	31 Dec 2009	31 Dec 2010	31 Dec 2009
Current accounts with banks	91,018	225,191	5,818	14,392
<b>Total cash and cash equivalents</b>	<b>91,018</b>	<b>225,191</b>	<b>5,818</b>	<b>14,392</b>

The amounts in current accounts are placed in overnight deposits. At the beginning of the year, the interest rates of the Group's overnight deposits ranged from 1.05% to 1.45% per year. By the year-end, the interest rates had dropped to 0.15% to 0.25% per year. The decrease in interest rates results from a decline in the risk margin of the Estonian kroon in connection with the adoption of the euro.

The Group's exposure to interest rate risk and a sensitivity analysis of the Group's financial assets and financial liabilities are presented in note 34.



## NOTE 9. Trade and other receivables

Current portion	Note	EEK'000		EUR'000	
		31 Dec 2010	31 Dec 2009	31 Dec 2010	31 Dec 2009
Trade receivables	34	239,695	338,767	15,319	21,651
Retentions receivable	28	17,534	36,884	1,121	2,357
Receivables from related parties	37	27,235	47,268	1,741	3,021
Loans to related parties	37	146,367	137,034	9,354	8,758
Loans to legal persons (including interest receivable)		0	40,241	0	2,572
Miscellaneous receivables		11,849	8,963	757	573
<b>Total receivables and loans granted</b>		<b>442,680</b>	<b>609,157</b>	<b>28,292</b>	<b>38,932</b>
Due from customers for contract work	28	46,528	35,547	2,974	2,272
<b>Total trade and other receivables</b>		<b>489,208</b>	<b>644,704</b>	<b>31,266</b>	<b>41,204</b>

Non-current portion	Note	EEK'000		EUR'000	
		31 Dec 2010	31 Dec 2009	31 Dec 2010	31 Dec 2009
Retentions receivable		0	1,046	0	67
Receivables from related parties	37	0	967	0	62
Loans to related parties	37	31,193	28,765	1,994	1,838
Miscellaneous receivables		3,464	2,551	221	163
<b>Total trade and other receivables</b>		<b>34,657</b>	<b>33,329</b>	<b>2,215</b>	<b>2,130</b>

Trade receivables are presented net of impairment allowances which at the reporting date totalled 46,234 thousand kroons/2,955 thousand euros (31 December 2009: 11,261 thousand kroons/720 thousand euros). Of the latter, 42,234 thousand kroons (2,699 thousand euros) resulted from the impairment of receivables related to Pärnu Keskus (see note 31). Changes in the allowance for doubtful receivables are presented in note 34.

Retentions receivable comprise the amounts of progress billings withheld by customers in accordance with the terms of construction contracts. The amounts are generally recovered within 12 months after the reporting date.

**Write-down of loans and receivables**

In 2010 the Group wished to complete a scheme involving corporate rehabilitation and other transactions instigated in 2009 by which the Group would have gained control of the companies that had commissioned the construction of the Pärnu Keskus shopping mall (including apartments on the upper floors) in the city of Pärnu, which to date has been completed, as well as a car park, which is still under construction. The Group undertook the scheme in order to restructure its construction contract receivables and loans to customers and companies related to them because the counterparties had become insolvent. Under the restructuring plan, additional investments would have had to be made in the project by both the bank that had financed the construction as well as the Group. After weighing carefully the cash flow risks that the takeover of the shopping mall and the completion of construction activities would entail over the next five years (under the terms offered by the bank), the Group came to the conclusion that they would not be economically justified, particularly as regards the size of the Group's self-financing.

In the reporting period, all construction contract receivables related to the above projects of 42,234 thousand kroons (2,699 thousand kroons) that were recorded within trade receivables were written down in full. The loans related to the projects, which were recorded within loans to legal persons, were written down by 40,241 thousand kroons (2,572 thousand euros). For further information, see notes 31 and 32.

## NOTE 10. Prepayments

	EEK'000		EUR'000	
	31 Dec 2010	31 Dec 2009	31 Dec 2010	31 Dec 2009
Prepayments to suppliers	2,012	13,713	129	876
Prepaid taxes	10,657	9,087	681	581
Prepaid expenses	3,912	7,737	250	494
Accrued income	0	58	0	4
<b>Total prepayments</b>	<b>16,581</b>	<b>30,595</b>	<b>1,060</b>	<b>1,955</b>

Prepayments to suppliers comprise prepayments for services of 518 thousand kroons (33 thousand euros) and prepayments for building materials of 1,494 thousand kroons (95 thousand euros). The corresponding figures for 2009 were 7,591 thousand kroons (485 thousand euros) and 6,122 thousand kroons (391 thousand euros).

## NOTE 11. Inventories

	EEK'000		EUR'000	
	31 Dec 2010	31 Dec 2009	31 Dec 2010	31 Dec 2009
Raw and other materials	48,902	48,365	3,125	3,091
Work in progress	67,127	63,573	4,290	4,063
Finished goods	63,080	83,539	4,032	5,339
Real estate held for resale	211,782	193,851	13,535	12,390
<b>Total inventories</b>	<b>390,891</b>	<b>389,328</b>	<b>24,982</b>	<b>24,883</b>

Raw and other materials comprise materials acquired for construction projects and road maintenance. In 2010 no materials were written down (2009: materials were written down by 580 thousand kroons/37 thousand euros).

Work in progress comprises the costs related to construction contracts active at the reporting date (the costs related to work not yet delivered to the customer). In addition, work in progress includes capitalised expenditures incurred in making preparations for development operations. Work in progress comprises of the following items:

	EEK'000		EUR'000	
	31 Dec 2010	31 Dec 2009	31 Dec 2010	31 Dec 2009
Costs related to apartment buildings and development projects not yet started	29,367	27,250	1,877	1,742
Other construction projects	37,760	36,323	2,413	2,321
<b>Total</b>	<b>67,127</b>	<b>63,573</b>	<b>4,290</b>	<b>4,063</b>

Finished goods comprise the construction costs of apartments completed but not yet sold. The decrease in finished goods is attributable to the sale of apartments. In the reporting period, no finished goods were written down due to a decline in market prices (2009: were written down by 21,893 thousand kroons/1,399 thousand euros).

At the reporting date, the value of properties (plots) acquired for development totalled 211,782 thousand kroons (13,535 thousand euros) (2009: 193,851 thousand kroons/12,390 thousand euros). The Group has not started active development operations on the properties. All post-acquisition expenditures incurred in making preparations for development operations that qualify for capitalisation have been recognised in work in progress. As at 31 December 2010 the plots were carried at cost. Information on inventories pledged as collateral is presented in note 36.

## NOTE 12. Non-current assets held for sale

	EEK'000		EUR'000	
	31 Dec 2010	31 Dec 2009	31 Dec 2010	31 Dec 2009
Non-current assets held for sale	5,027	4,617	321	295
<b>Total non-current assets held for sale</b>	<b>5,027</b>	<b>4,617</b>	<b>321</b>	<b>295</b>

Non-current assets held for sale include heated construction site shelters that have been offered for sale. The Group has decided to sell the shelters because the demand for construction services has decreased. A non-current asset held for sale is carried at the lower of carrying amount at the date of reclassification and fair value less costs to sell.

## NOTE 13. Investments in equity-accounted investees

	EEK'000		EUR'000	
	31 Dec 2010	31 Dec 2009	31 Dec 2010	31 Dec 2009
Investments in equity-accounted investees	1,542	2,191	99	140
<b>Total investments in equity-accounted investees</b>	<b>1,542</b>	<b>2,191</b>	<b>99</b>	<b>140</b>

## Transactions with investments in equity-accounted investees in 2010

## Establishment of Pigipada OÜ

In 2010 the Group participated in the establishment of Pigipada OÜ, a company domiciled in Estonia, acquiring a 24% stake in the entity's share capital for a monetary contribution of 10 thousand kroons (0.6 thousand euros). According to plan, Pigipada OÜ will start producing bitumen emulsion. In July, Nordecon AS increased its interest in the entity to 49%, paying for the additional stake with a monetary contribution of 10 thousand kroons (0.6 thousand euros).

### Establishment of Magasini 29 OÜ and disposal of Crislivinca OÜ

In the reporting period, the Group's subsidiary Eston Ehitus AS and a co-investor established Magasini 29 OÜ, a company domiciled in Estonia, acquiring a 34% stake for a monetary contribution of 14 thousand kroons (0.9 thousand euros). The entity was established so that it could be transferred some of the assets and liabilities of Crislivinca OÜ (in which the stake of Eston Ehitus AS was also 34%) that were related to a property in Magasini street, Tallinn. After the separation of Crislivinca OÜ, Eston Ehitus AS and the co-investor performed a barter transaction by which they swapped their stakes in Crislivinca OÜ and Magasini 29 OÜ so that after the transaction Eston Ehitus AS owns 100% of the shares in Magasini 29 OÜ and the co-investor owns 100% of the shares in Crislivinca OÜ. For further information see *Acquisitions* in note 7.

### Increase in the investment made in Kastani Kinnisvara OÜ

During the reporting period the Group increased its investment in Kastani Kinnisvara OÜ with a non-monetary contribution of 5,000 thousand kroons (320 thousand euros). The non-monetary contribution consisted of a loan granted to the associate in a previous period (see note 37).

### General information on equity-accounted investees

Company and type of investment		Domicile	Group's interest		Business activity
			31 Dec 2010	31 Dec 2009	
Technopolis-2 TOV	Associate	Ukraine	32%	32%	Real estate development
V.I. Center TOV	Associate	Ukraine	28%	28%	Real estate development
Kastani Kinnisvara OÜ	Associate	Estonia	26%	26%	Real estate development
Sepavara OÜ	Associate	Estonia	49%	49%	Real estate development
Crislivinca OÜ	Associate	Estonia	0%	33%	Real estate development
Pigipada OÜ	Associate	Estonia	49%	0%	Bitumen refining
Unigate OÜ	Joint venture	Estonia	50%	50%	Real estate development

### Summary financial information for equity-accounted investees (not adjusted for the ownership interest of the Group) and the carrying values of the investments in the Group's financial statements:

#### 2010

#### Summary financial information for the associates

EEK'000		31 Dec 2010			2010	31 Dec 2010
Associate	Assets	Liabilities	Equity	Revenue	Profit/loss	Value of investment in the Group's accounts
Technopolis-2 TOV	7,045	26,419	-19,374	0	-2,783	0
V.I. Center TOV	178,542	241,036	-62,494	288	15,105	0
Kastani Kinnisvara OÜ	19,251	19,262	-11	4,511	-4,348	0
Sepavara OÜ	7,001	6,975	26	0	-24	12
Pigipada OÜ	10,337	10,809	-472	1,799	-512	0
<b>Total</b>	<b>222,176</b>	<b>304,501</b>	<b>-82,325</b>	<b>6,598</b>	<b>7,438</b>	<b>12</b>

EUR'000		31 Dec 2010			2010	31 Dec 2010
Associate	Assets	Liabilities	Equity	Revenue	Profit/loss	Value of investment in the Group's accounts
Technopolis-2 TOV	450	1,688	-1,238	0	-178	0
V.I. Center TOV	11,411	15,405	-3,994	18	965	0
Kastani Kinnisvara OÜ	1,230	1,231	-1	288	-278	0
Sepavara OÜ	447	446	2	0	-2	1
Pigipada OÜ	661	691	-30	115	-33	0
<b>Total</b>	<b>14,199</b>	<b>19,461</b>	<b>-5,261</b>	<b>421</b>	<b>474</b>	<b>1</b>

The Group does not have a binding obligation to restore the negative equity of the Ukrainian entities. Therefore, the Group has not established corresponding provisions. As regards the Estonian associates, there is a legal obligation to restore the investees' equity within a certain time. The Group has not established a provision for restoring the equity of Kastani Kinnisvara OÜ and Pigipada OÜ because according to the forecast for 2011 the entities will start generating a profit and their equity will rise to the level required by the law.

## Summary financial information for the joint venture

EEK'000					31 Dec 2010	2010	31 Dec 2010
Joint venture	Current assets	Non-current assets	Current liabilities	Non-current liabilities	Revenue	Expenses	Value of investment
Unigate OÜ	53,225	0	627	50,701	0	46	1,530

EUR'000					31 Dec 2010	2010	31 Dec 2010
Joint venture	Current assets	Non-current assets	Current liabilities	Non-current liabilities	Revenue	Expenses	Value of investment
Unigate OÜ	3,402	0	40	3,240	0	3	98

The carrying amount of the investment includes goodwill of 582 thousand kroons (37 thousand euros). In the reporting period, the goodwill was not written down because the present value of its discounted cash flows exceeded the carrying value of the investment.

## 2009

## Summary financial information for the associates

EEK'000		31 Dec 2009			2009	31 Dec 2009
Associate	Assets	Liabilities	Equity	Revenue	Profit/loss	Value of investment in the Group's accounts
Technopolis-2 TOV	6,458	21,812	-15,355	38	-3,988	0
V.I. Center TOV	153,495	224,101	-70,606	315	-14,404	0
Kastani Kinnisvara OÜ	24,892	30,550	-5,658	2,296	-6,001	0
Sepavara OÜ	6,661	6,610	51	0	-21	25
Crislivinca OÜ	83,689	20,938	341	961	-15,474	613
<b>Total</b>	<b>275,195</b>	<b>304,011</b>	<b>-91,227</b>	<b>3,610</b>	<b>-39,888</b>	<b>638</b>

EUR'000		31 Dec 2009			2009	31 Dec 2009
Associate	Assets	Liabilities	Equity	Revenue	Profit/loss	Value of investment in the Group's accounts
Technopolis-2 TOV	413	1,394	-981	2	-255	0
V.I. Center TOV	9,810	14,323	-4,513	20	-921	0
Kastani Kinnisvara OÜ	1,591	1,953	-362	147	-383	0
Sepavara OÜ	426	422	3	0	-1	2
Crislivinca OÜ	5,349	1,338	22	61	-989	39
<b>Total</b>	<b>17,589</b>	<b>19,430</b>	<b>-5,831</b>	<b>230</b>	<b>-2,549</b>	<b>41</b>

## Summary financial information for the joint venture

EEK'000					31 Dec 2009	2009	31 Dec 2009
Joint venture	Current assets	Non-current assets	Current liabilities	Non-current liabilities	Revenue	Expenses	Value of investment
Unigate OÜ	49,681	0	46,505	1,234	0	25	1,553

EUR'000					31 Dec 2009	2009	31 Dec 2009
Joint venture	Current assets	Non-current assets	Current liabilities	Non-current liabilities	Revenue	Expenses	Value of investment
Unigate OÜ	3,175	0	2,972	79	0	2	99

## The Group's share of profit or loss of equity-accounted investees

EEK'000	Recorded in 2010			Recorded in 2009		
	Profit/ loss	In the Group's profit or loss	Off the statement of financial position	Profit/ loss	In the Group's profit or loss	Off the statement of financial position
Technopolis-2 TOV	-891	0	-891	-1,276	0	-1,276
V.I. Center TOV	4,229	0	4,229	-4,033	0	-4,033
Kastani Kinnisvara OÜ	-1,131	-5,000	-6	-3,000	-2,392	-608
Sepavara OÜ	-13	-13	0	-11	-11	0
Pigipada OÜ	-251	-20	-231	0	0	0
Crislivinca OÜ	-4,928	-613	-4,812	-5,260	-5,260	0
Unigate OÜ	-23	-23	0	-13	-3	-10
Magasini 29 OÜ	-2,428	-2,428	0	0	0	0
<b>Total</b>	<b>-5,436</b>	<b>-8,097</b>	<b>-1,711</b>	<b>-13,593</b>	<b>-7,666</b>	<b>-5,927</b>

The Group's share of the profits and losses of the associates Technopolis-2 TOV and V.I. Center TOV are accounted for off the statement of financial position while their equity is negative.

In the reporting period, the Group increased its investment in Kastani Kinnisvara OÜ with a non-monetary contribution of 5,000 thousand kroons (320 thousand euros). At the year-end, the Group's share of the loss of Kastani Kinnisvara OÜ for 2010 together with accumulated losses amounted to 5,006 thousand kroons (320 thousand euros). The Group wrote the investment down to the extent of the non-monetary contribution made in 2010.

In the reporting period, the Group wrote down the investment in Crislvinca OÜ by 613 thousand kroons (39 thousand euros); the figure includes the write-down of goodwill of 497 thousand kroons (32 thousand euros). The Group did not recognise the proportion of loss that exceeded the carrying amount of the investment because by that date it was already known that the investment in the entity would be swapped for an investment in Magasini 29 OÜ. Under the shareholder agreement, the Group did not have to restore the equity of the investee.

After the establishment of the associate Magasini 29 OÜ, the assets and liabilities related to a property located at Magasini 29 were transferred from Crislvinca OÜ to Magasini 29 OÜ. Through the transaction, the equity of Magasini 29 OÜ became negative and the Group recognised a loss under the equity method of 2,428 thousand kroons (155 thousand euros) until the stakes in Magasini 29 OÜ and Crislvinca OÜ were swapped and Magasini 29 OÜ became a subsidiary (see note 7).

EUR'000	Recorded in 2010			Recorded in 2009		
	Profit/ loss	In the Group's profit or loss	Off the statement of financial position	Profit/ loss	In the Group's profit or loss	Off the statement of financial position
Technopolis-2 TOV	-57	0	-57	-82	0	-82
V.I. Center TOV	270	0	270	-258	0	-258
Kastani Kinnisvara OÜ	-72	-320	0	-192	-153	-39
Sepavara OÜ	-1	-1	0	-1	-1	0
Pigipada OÜ	-16	-1	-15	0	0	0
Crislivinca OÜ	-315	-39	-308	-336	-336	0
Unigate OÜ	-1	-1	0	-1	0	-1
Magasini 29 OÜ	-155	-155	0	0	0	0
<b>Total</b>	<b>-347</b>	<b>-517</b>	<b>-110</b>	<b>-870</b>	<b>-490</b>	<b>-379</b>

## NOTE 14. Participation in jointly controlled operations

The Group participates in jointly controlled operations that are conducted under partnership contracts. The contracts set forth the share of revenue each party is entitled to and the share of expenses to be borne by each partner. The parties have not established corporations for the operation of the joint ventures, therefore each party recognises in its financial statements the assets used for construction purposes, the liabilities and expenses incurred and the income earned in accordance with the business entity principle and no adjustments or other consolidation procedures are performed on preparing the consolidated financial statements.

In 2010 the Group participated in jointly controlled operations under the following partnership contracts:

Name of jointly controlled operation	Group's interest %	Total value of contract	
		EEK'000	EUR'000
Construction of the Koidula railway border station	62%	267,391	17,089
Construction of the Ahtme peak load boiler plant	50%	134,000	8,564
Construction of a water treatment plant for the Väike-Maarja animal waste treatment plant	38%	29,947	1,914
Construction of connecting pipelines and facilities for the Tallinn-Muuga water and wastewater network within the Maardu city water management project	50%	103,041	6,586

## NOTE 15. Other long-term investments

	EEK'000		EUR'000	
	31 Dec 2010	31 Dec 2009	31 Dec 2010	31 Dec 2009
Other long-term investments	414	414	26	26
<b>Total other long-term investments</b>	<b>414</b>	<b>414</b>	<b>26</b>	<b>26</b>

Other long-term investments comprise the Group's 6% interest in E-trading AS. The investment is measured at cost because its fair value cannot be measured reliably. In the reporting period, the carrying value of the investment did not change.

## NOTE 16. Investment property

	Note	EEK'000		EUR'000	
		2010	2009	2010	2009
<b>Investment property at 1 January</b>		<b>87,975</b>	<b>116,783</b>	<b>5,623</b>	<b>7,464</b>
Sales		-10,840	-16,348	-693	-1,045
Re-measurement to fair value	5	0	-12,460	0	-796
<b>Investment property at 31 December</b>		<b>77,135</b>	<b>87,975</b>	<b>4,930</b>	<b>5,623</b>

In the reporting period, the Group sold two investment properties, one of them generating rental income. As regards the property that generated rental income, the Group had signed a sales contract under the law of obligations already at the end of 2009. Therefore, the fair value of the property was adjusted. The sales transactions resulted in a total loss of 2,023 thousand kroons (129 thousand euros). For further information, see note 31.

Information on the adjustment of the fair values of investment properties as at the reporting date is presented in note 5. Information on investment properties pledges as collateral is presented in note 36.

In 2010, the Group's investment properties generated rental income of 414 thousand kroons (27 thousand euros) and direct property management expenses totalled 728 thousand kroons (47 thousand euros). In 2009, rental income amounted to 2,612 thousand kroons (167 thousand euros) and property management expenses totalled 1,978 thousand kroons (126 thousand euros). Properties that do not generate rental income did not give rise to any significant management expenses.

## NOTE 17. Property, plant and equipment

EEK'000	Land and buildings	Plant and equipment	Other items of PP&E	Assets under construction	Total
<b>Cost</b>					
<b>At 31 December 2008</b>	<b>36,784</b>	<b>366,666</b>	<b>57,061</b>	<b>1,828</b>	<b>462,339</b>
Acquisitions through business combinations	0	2,233	219	0	2,452
Additions	0	2,725	4,380	386	7,491
Disposals	-721	-10,417	-7,024	0	-18,162
Reclassification	0	-2,097	2,097	0	0
Effect of movements in exchange rates	0	-304	-76	0	-380
<b>At 31 December 2009</b>	<b>36,063</b>	<b>358,806</b>	<b>56,657</b>	<b>2,214</b>	<b>453,740</b>

Additions	554	6,547	1,536	0	8,637
Disposals	0	-48,038	-2,344	-425	-50,807
Disposals through disposal of a subsidiary	0	-28,705	-4,178	0	-32,883
Reclassification	0	-1,868	1,868	0	0
Effect of movements in exchange rates	0	733	1,198	0	1,931
<b>At 31 December 2010</b>	<b>36,617</b>	<b>287,475</b>	<b>54,737</b>	<b>1,789</b>	<b>380,618</b>
<b>Depreciation</b>					
<b>At 31 December 2008</b>	<b>2,277</b>	<b>167,580</b>	<b>29,188</b>	<b>0</b>	<b>199,045</b>
Depreciation for the year	1,257	53,642	11,101	0	66,000
Disposals	0	-9,362	-5,897	0	-15,259
Effect of movements in exchange rates	0	-101	-60	0	-161
<b>At 31 December 2009</b>	<b>3,534</b>	<b>211,759</b>	<b>34,332</b>	<b>0</b>	<b>249,625</b>
Depreciation for the year	1,280	35,456	9,924	0	46,660
Disposals	0	-40,375	-3,020	0	-43,395
Disposals through disposal of a subsidiary	0	-11,882	-2,266	0	-14,148
Effect of movements in exchange rates	0	234	225	0	459
<b>At 31 December 2010</b>	<b>4,814</b>	<b>195,192</b>	<b>39,195</b>	<b>0</b>	<b>239,201</b>
<b>Carrying amount</b>					
<b>At 31 December 2008</b>	<b>34,507</b>	<b>199,086</b>	<b>27,874</b>	<b>1,828</b>	<b>263,295</b>
<b>At 31 December 2009</b>	<b>32,529</b>	<b>147,047</b>	<b>22,325</b>	<b>2,214</b>	<b>204,115</b>
<b>At 31 December 2010</b>	<b>31,803</b>	<b>92,283</b>	<b>15,542</b>	<b>1,789</b>	<b>141,417</b>

EUR '000	Land and buildings	Plant and equipment	Other items of PP&E	Assets under construction	Total
<b>Cost</b>					
<b>At 31 December 2008</b>	<b>2,351</b>	<b>23,434</b>	<b>3,647</b>	<b>117</b>	<b>29,549</b>
Acquisitions through business combinations	0	143	14	0	157
Additions	0	174	280	25	479
Disposals	-46	-666	-449	0	-1,161
Reclassification	0	-134	134	0	0
Effect of movements in exchange rates	0	-19	-5	0	-24
<b>At 31 December 2009</b>	<b>2,305</b>	<b>22,931</b>	<b>3,621</b>	<b>142</b>	<b>28,999</b>
Additions	35	419	98	0	552
Disposals	0	-3,070	-150	-27	-3,247
Disposals through disposal of a subsidiary	0	-1,835	-267	0	-2,102
Reclassification	0	-119	119	0	0
Effect of movements in exchange rates	0	47	77	0	124
<b>At 31 December 2010</b>	<b>2,340</b>	<b>18,373</b>	<b>3,498</b>	<b>115</b>	<b>24,326</b>
<b>Depreciation</b>					
<b>At 31 December 2008</b>	<b>145</b>	<b>10,710</b>	<b>1,865</b>	<b>0</b>	<b>12,721</b>
Depreciation for the year	80	3,428	709	0	4,217
Disposals	0	-598	-377	0	-975
Effect of movements in exchange rates	0	-6	-4	0	-10
<b>At 31 December 2009</b>	<b>226</b>	<b>13,534</b>	<b>2,194</b>	<b>0</b>	<b>15,954</b>
Depreciation for the year	82	2,266	634	0	2,983
Disposals	0	-2,580	-193	0	-2,773
Disposals through disposal of a subsidiary	0	-759	-145	0	-904
Effect of movements in exchange rates	0	15	14	0	29
<b>At 31 December 2010</b>	<b>308</b>	<b>12,476</b>	<b>2,504</b>	<b>0</b>	<b>15,288</b>
<b>Carrying amount</b>					
<b>At 31 December 2008</b>	<b>2,205</b>	<b>12,724</b>	<b>1,781</b>	<b>117</b>	<b>16,828</b>
<b>At 31 December 2009</b>	<b>2,079</b>	<b>9,398</b>	<b>1,427</b>	<b>142</b>	<b>13,045</b>
<b>At 31 December 2010</b>	<b>2,033</b>	<b>5,898</b>	<b>993</b>	<b>114</b>	<b>9,038</b>

Group entities have secured their liabilities by mortgaging immovable property (plots and buildings). Information on assets pledged as collateral is presented in note 36.

At the reporting date, the Group had no contractual obligations to acquire any items of property, plant and equipment in subsequent financial years.



**Assets acquired with finance lease (included in property, plant and equipment)**

2010	EEK'000			EUR'000		
	Plant and equipment	Other items of PP&E	Total	Plant and equipment	Other items of PP&E	Total
Cost at 31 December 2010	173,853	6,505	180,358	11,111	416	11,527
Carrying amount at 31 December 2010	66,849	2,829	69,678	4,272	181	4,453

2009	EEK'000			EUR'000		
	Plant and equipment	Other items of PP&E	Total	Plant and equipment	Other items of PP&E	Total
Cost at 31 December 2009	235,296	17,603	252,899	15,038	1,125	16,163
Carrying amount at 31 December 2009	118,439	8,235	126,674	7,570	526	8,096

The carrying amounts of assets acquired with finance leases have decreased year-over-year mainly on account of depreciation. To a lesser extent, assets have been sold or returned to the lessor.

In 2010, the Group entered into new finance lease contracts of 5,906 thousand kroons (377 thousand euro) (2009: 13,017 thousand kroons / 832 thousand euros).

**NOTE 18. Intangible assets**

EEK'000	Note	Goodwill	Software licences	Trademarks	Development costs	Total
<b>Cost</b>						
<b>At 31 December 2008</b>		<b>295,304</b>	<b>1,702</b>	<b>10,000</b>	<b>4,645</b>	<b>311,651</b>
Acquisitions through business combinations		20,922	623	0	0	21,545
Other additions		0	274	7,500	414	8,188
Disposals		0	-502	-4,000	0	-4,502
Write-down of goodwill	31	-61,206	0	0	0	-61,206
Effect of movements in exchange rates		-76	-10	0	0	-86
<b>At 31 December 2009</b>		<b>254,944</b>	<b>2,087</b>	<b>13,500</b>	<b>5,059</b>	<b>275,590</b>
Acquisitions through business combinations		4,715	0	0	0	4,715
Other additions		0	5	0	0	5
Disposals		0	-441	0	0	-441
Disposals through disposal of a subsidiary	7	-20,863	-383	0	0	-21,246
Write-down of goodwill	7, 31	-6,425	0	0	0	-6,425
Effect of movements in exchange rates		0	9	0	0	9
<b>At 31 December 2010</b>		<b>232,371</b>	<b>1,277</b>	<b>13,500</b>	<b>5,059</b>	<b>252,207</b>
<b>Amortisation</b>						
<b>At 31 December 2008</b>		<b>0</b>	<b>963</b>	<b>5,500</b>	<b>0</b>	<b>6,463</b>
Acquisitions through business combinations		0	103	0	0	103
Amortisation for the year		0	466	3,375	0	3,841
Disposals		0	-50	-3,000	0	-3,050
<b>At 31 December 2009</b>		<b>0</b>	<b>1,482</b>	<b>5,875</b>	<b>0</b>	<b>7,357</b>
Amortisation for the year		0	244	3,000	0	3,244
Disposals		0	-490	0	0	-490
Disposals through disposal of a subsidiary	7	0	-204	0	0	-204
Effect of movements in exchange rates		0	4	0	0	4
<b>At 31 December 2010</b>		<b>0</b>	<b>1,036</b>	<b>8,875</b>	<b>0</b>	<b>9,911</b>
<b>Carrying amount</b>						
<b>At 31 December 2008</b>		<b>295,304</b>	<b>739</b>	<b>4,500</b>	<b>4,645</b>	<b>305,188</b>
<b>At 31 December 2009</b>		<b>254,944</b>	<b>605</b>	<b>7,625</b>	<b>5,059</b>	<b>268,233</b>
<b>At 31 December 2010</b>		<b>232,371</b>	<b>241</b>	<b>4,625</b>	<b>5,059</b>	<b>242,296</b>



EUR'000	Note	Goodwill	Software licences	Trademarks	Development costs	Total
<b>Cost</b>						
<b>At 31 December 2008</b>		<b>18,873</b>	<b>109</b>	<b>639</b>	<b>297</b>	<b>19,918</b>
Acquisitions through business combinations		1,337	40	0	0	1,377
Other additions		0	18	479	26	523
Disposals		0	-32	-256	0	-288
Write-down of goodwill	31	-3,912	0	0	0	-3,912
Effect of movements in exchange rates		-4	-1	0	0	-5
<b>At 31 December 2009</b>		<b>16,294</b>	<b>133</b>	<b>863</b>	<b>323</b>	<b>17,613</b>
Acquisitions through business combinations		301	0	0	0	301
Other additions		0	1	0	0	1
Disposals		0	-28	0	0	-28
Disposals through disposal of a subsidiary	7	-1,333	-24	0	0	-1,357
Write-down of goodwill	7, 31	-411	0	0	0	-411
Effect of movements in exchange rates		0	1	0	0	1
<b>At 31 December 2010</b>		<b>14,851</b>	<b>82</b>	<b>863</b>	<b>323</b>	<b>16,119</b>
<b>Amortisation</b>						
<b>At 31 December 2008</b>		<b>0</b>	<b>62</b>	<b>352</b>	<b>0</b>	<b>413</b>
Acquisitions through business combinations		0	7	0	0	7
Amortisation for the year		0	30	216	0	245
Disposals		0	-3	-192	0	-195
<b>At 31 December 2009</b>		<b>0</b>	<b>95</b>	<b>375</b>	<b>0</b>	<b>470</b>
Amortisation for the year		0	16	192	0	208
Disposals		0	-31	0	0	-31
Disposals through disposal of a subsidiary	7	0	-13	0	0	-13
Effect of movements in exchange rates		0	0	0	0	0
<b>At 31 December 2010</b>		<b>0</b>	<b>67</b>	<b>566</b>	<b>0</b>	<b>633</b>
<b>Carrying amount</b>						
<b>At 31 December 2008</b>		<b>18,873</b>	<b>47</b>	<b>288</b>	<b>297</b>	<b>19,505</b>
<b>At 31 December 2009</b>		<b>16,294</b>	<b>39</b>	<b>487</b>	<b>323</b>	<b>17,143</b>
<b>At 31 December 2010</b>		<b>14,851</b>	<b>15</b>	<b>297</b>	<b>323</b>	<b>15,486</b>

Capitalised development costs result from preparations made for the extraction of sand deposits from the seabed. The preparations will continue in 2011.

Amortisation is recognised 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 interests in 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 carrying amounts of goodwill allocated to the subsidiaries are as follows:

Company	Interest 2010	Interest 2009	EEK'000 31 Dec 2010	EEK'000 31 Dec 2009	EUR'000 31 Dec 2010	EUR'000 31 Dec 2009
<b>Nordecon AS</b>						
Goodwill <sup>1</sup>	-	-	128,390	-	8,206	-
<b>Subsidiaries of Nordecon AS</b>						
Nordecon Infra AS <sup>1</sup>	-	100%	-	43,135	-	2,757
Nordecon Ehitus AS <sup>1</sup>	-	100%	-	85,255	-	5,449
Eurcon OÜ	64%	64%	6,655	6,655	425	425
Nordecon Infra SIA <sup>2</sup>	0%	56%	0	1,710	0	109
Nordecon Betoon OÜ	52%	52%	2,831	2,831	181	181
OÜ Kaurits	66%	66%	31,636	31,636	2,022	2,022
Eston Ehitus AS	98%	98%	62,859	62,859	4,017	4,017
SIA LCB <sup>2</sup>	0%	42%	0	20,863	0	1,334
<b>Total</b>			<b>232,371</b>	<b>254,944</b>	<b>14,851</b>	<b>16,294</b>

<sup>1</sup> Nordecon Infra AS and Nordecon Ehitus AS were combined with the Parent Nordecon AS from 31 December 2010 after which they were considered dissolved. Since the merger, the goodwill allocated to the subsidiaries has been recognised in the statement of financial position of Nordecon AS. <sup>2</sup> The entities were sold in 2010. SIA LCB was part of the Nordecon Infra SIA subgroup (75% interest).

## General assumptions for determining value in use

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

- The forecast period was 2011-2014 plus the terminal year.
- The present value of the future cash flows was found using the average weighted cost of capital (WACC) as the discount rate. The proportions of debt and equity capital used as weights were based on the capital structures of similar companies (measured at the average market value), which according to the Damodaran database were 46% and 54% (Nordecon AS, Eurocon OÜ, Nordecon Betoon OÜ, Eston Ehitus AS) or 61% and 39% (Kaurits OÜ) respectively, depending on the field of activity of the cash-generating unit.

The cost of debt was estimated based on the company's actual loan interest rates of 3.6-6.5% and the expected rate of return on equity was set at 15-20%, which was also compared against an industry survey conducted by an international audit firm. See note 2 for the sensitivity test of the discount rate.

- Changes in subsequent periods' revenues were projected on the basis of the action plans of the company (cash-generating unit) for subsequent periods (including the budget approved by management for 2011) and an assessment of the market situation in the segment where the company operates.
- Changes in subsequent periods' gross margins were projected on the basis of the action plans of the company (cash-generating unit) for subsequent periods (including the budget approved by management for 2011) and an assessment of the market situation in the segment where the company operates.
- Administrative expenses that affect operating cash flow were projected on the basis of the budget approved by management for 2011 according to which at least the level achieved in 2010 after cost-cutting is to be maintained although at some companies administrative expenses may decrease even further. From 2012 administrative expenses are expected to level off or increase.
- Changes in working capital investments were projected based on the expected revenue change against the comparative period. The absolute revenue change was used to estimate the portion (5%) that is expected to be needed for raising additional working capital upon revenue growth or to be released upon revenue decline.
- Changes in capital expenditures were projected on the basis of the investment budget approved by management for 2011 and by applying to it in subsequent periods suitable growth rates estimated by reference to projections of the company's future activity.

### Nordecon AS

#### Assumptions applied

Forecast period	2011-2014 + terminal year
Discount rate	9.8%
Revenue change	2011: 27%, 2011-2012: 10-15% growth per year on average, 1% in the terminal year
Gross margin	Based on the budget for 2011, gradual growth in 2011-2014 of up to 8%, in the terminal year 7.5%
Administrative expenses	See general assumptions, in 2011-2014 approx. 3.5-4% of revenue, in the terminal year 4.5%
Working capital	See general assumptions
Capital expenditures	See general assumptions

### OÜ Eurocon

#### Assumptions applied

Forecast period	2011-2014 + terminal year
Discount rate	13.6%
Revenue change	2011: no activity, 2013-2014: 35% growth per year on average, 1% in the terminal year
Gross margin	Based on the budget for 2011, gradual growth in 2012-2014 of up to 8%, in the terminal year 8%
Administrative expenses	See general assumptions, in 2011-2014 approx. 5% of revenue, in the terminal year 5.3%
Working capital	See general assumptions
Capital expenditures	See general assumptions

### Nordecon Betoon OÜ

#### Assumptions applied

Forecast period	2011-2014 + terminal year
Discount rate	10%
Revenue change	2011: -26%, 2012-2014: 3-5% growth per year on average, 1% in the terminal year
Gross margin	Based on the budget for 2011, gradual growth in 2012-2014 of up to 7.5%, in the terminal year 7%
Administrative expenses	See general assumptions, in 2011-2014 approx. 5% of revenue, in the terminal year 5%
Working capital	See general assumptions
Capital expenditures	See general assumptions

Kaurits OÜ	Assumptions applied
Forecast period	2011-2014 + terminal year
Discount rate	8.3%
Revenue change	2011: 11%, 2012-2014: 2.5% growth per year on average, 1% in the terminal year
Gross margin	Based on the budget for 2011, in 2011 the company will have a gross margin of up to 4.5%. In 2012-2014 gross margin will exceed 10% because the depreciation of the machinery park will decline significantly, reaching an optimal level in view of the size of the machinery park.
Administrative expenses	See general assumptions, in 2011-2014 approx. 3.2-4% of revenue, in the terminal year 4.5%
Working capital	See general assumptions
Capital expenditures	See general assumptions. 2012-2014 machinery park needs to be renewed.

Eston Ehitus AS	Assumptions applied
Forecast period	2011-2014 + terminal year
Discount rate	11.1%
Revenue change	2011: 73% growth as the Group's subcontractor, 2011-2012: 20% growth per year on average, 1% in the terminal year
Gross margin	Based on the budget for 2011, gradual growth in 2011-2014 of up to 8.5%, in the terminal year 8%
Administrative expenses	See general assumptions, in 2011-2014 approx. 2% of revenue, in the terminal year 2% (own support functions will be minimal; a significant proportion of expenses will be included in project costs)
Working capital	See general assumptions
Capital expenditures	See general assumptions

Impairment losses on goodwill have been recognised in other operating expenses. Total impairment losses recognised for goodwill in profit or loss and recorded in segment reporting:

Cash-generating unit containing goodwill	Segment	2010		2009	
		EEK'000	EUR'000	EEK'000	EUR'000
Nordecon Infra SIA <sup>1</sup>	Infrastructure EU	0	0	8,156	521
Nordecon Infra SIA	-	1,710	109	985	63
Magasini 29 OÜ	Buildings EU	4,715	301	0	0
Eston Ehitus AS	Buildings EU	0	0	43,776	2,798
DSN Ehitusmasinad OÜ	Other EU	0	0	8,289	530
<b>Total</b>		<b>6,425</b>	<b>411</b>	<b>61,206</b>	<b>3,912</b>

<sup>1</sup> In 2009, the Group wrote down goodwill allocated to entities of the Nordecon Infra SIA subgroup, which were part of the Infrastructure segment.

<sup>2</sup> In 2010, the Group wrote down goodwill acquired on the acquisition of Nordecon Infra SIA, which was reported in the statement of financial position of the holding company Nordecon AS. The results of a holding company are not included in segment reporting.

## NOTE 19. Loans and borrowings

### Short-term loans and borrowings:

	Note	EEK'000		EUR'000	
		31 Dec 2010	31 Dec 2009	31 Dec 2010	31 Dec 2009
Overdraft liability		131,134	123,832	8,381	7,914
Current portion of long-term loans and borrowings of which		121,598	114,653	7,771	7,328
Bank loans		88,661	72,219	5,666	4,616
Finance lease liabilities	20	32,937	42,434	2,105	2,712
Short-term bank loans		3,593	24,474	230	1,564
Factoring liability		44,584	0	2,849	0
<b>Total short-term loans and borrowings</b>		<b>300,909</b>	<b>262,959</b>	<b>19,231</b>	<b>16,806</b>

### Long-term loans and borrowings:

	Note	EEK'000		EUR'000	
		31 Dec 2010	31 Dec 2009	31 Dec 2010	31 Dec 2009
Total long-term loans and borrowings of which:		362,187	408,981	23,148	26,139
Current portion		121,598	114,653	7,771	7,328
<b>Non-current portion of long-term loans and borrowings of which</b>		<b>240,589</b>	<b>294,328</b>	<b>15,377</b>	<b>18,811</b>
Bank loans		192,671	214,093	12,314	13,683
Finance lease liabilities	20	32,519	64,836	2,078	4,144
Other long-term loans		15,399	15,399	984	984

## Details of loans as at 31 December 2010:

EEK'000 Loan type	Base currency	Interest rate	Up to 1 year	1-2 years	3-... years	Total loan	Maturity date
Overdraft <sup>1</sup>	EUR	3.5%+6m Euribor	38,103	0	0	38,103	28 Feb 2011
Overdraft	EUR	3.82%	28,381	0	0	28,381	30 Sep 2011
Overdraft	EUR	Bank base rate + 2%	64,650	0	0	64,650	28 Sep 2011
Group cash pool limit <sup>2</sup>	EEK	Bank base rate	843	0	0	843	1 Jan 2011
Investment loan	EUR	1.5%+6m Euribor	26,748	26,749	60,180	113,677	11 Jan 2013
Investment loan	EUR	4.4%+6m Euribor	10,328	6,980	0	17,308	23 Apr 2012
Investment loan	EUR	4.1%	21,884	43,768	0	65,652	30 Oct 2013
Investment loan	EUR	5.0%	0	18,795	0	18,795	29 Dec 2012
Investment loan	EUR	1%+6m Euribor	755	5,199	0	5,954	18 Sep 2017
Investment loan	EUR	1.2%+6m Euribor	28,946	0	0	28,946	8 Nov 2011
Investment loan	EUR	3%+3m Euribor	0	31,000	0	31,000	4 May 2012
Working capital loan	EEK	5%	0	0	15,399	15,399	1 Aug 2014
Working capital loan	EUR	6.64%	2,750	0	0	2,750	25 Sep 2011
Factoring liability	EUR	2.2%+EONIA	44,584	0	0	44,584	30 Sep 2011
<b>Total loans</b>			<b>267,972</b>	<b>132,491</b>	<b>75,579</b>	<b>476,042</b>	

<sup>1</sup> Refinanced until 30 September 2011, interest rate did not change. <sup>2</sup> Settled on 1 January 2011.

EUR'000 Loan type	Base currency	Interest rate	Up to 1 year	1-2 years	3-... years	Total loan	Maturity date
Overdraft <sup>1</sup>	EUR	3.5%+6m Euribor	2,435	0	0	2,435	28 Feb 2011
Overdraft	EUR	3.82%	1,814	0	0	1,814	30 Sep 2011
Overdraft	EUR	Bank base rate + 2%	4,132	0	0	4,132	28 Sep 2011
Group cash pool limit <sup>2</sup>	EEK	Bank base rate	54	0	0	54	1 Jan 2011
Investment loan	EUR	1.5%+6m Euribor	1,710	1,710	3,846	7,266	11 Jan 2013
Investment loan	EUR	4.4%+6m Euribor	660	446	0	1,106	23 Apr 2012
Investment loan	EUR	4.1%	1,399	2,797	0	4,196	30 Oct 2013
Investment loan	EUR	5.0%	0	1,201	0	1,201	29 Dec 2012
Investment loan	EUR	1%+6m Euribor	48	332	0	380	18 Sep 2017
Investment loan	EUR	1.2%+6m Euribor	1,850	0	0	1,850	8 Nov 2011
Investment loan	EUR	3%+3m Euribor	0	1,981	0	1,981	4 May 2012
Working capital loan	EEK	5%	0	0	984	984	1 Aug 2014
Working capital loan	EUR	6.64%	176	0	0	176	25 Sep 2011
Factoring liability	EUR	2.2%+EONIA	2,849	0	0	2,849	30 Sep 2011
<b>Total loans</b>			<b>17,127</b>	<b>8,468</b>	<b>4,830</b>	<b>30,424</b>	

## Details of loans as at 31 December 2009:

EEK'000 Loan type	Base currency	Interest rate	Up to 1 year	1-2 years	3-... years	Total loan	Maturity date
Overdraft	EUR	2.5%+6m Euribor	79,173	0	0	79,173	15 Jan 2010
Overdraft	EUR	3.82%	22,744	0	0	22,744	30 Apr 2010
Overdraft <sup>1</sup>	EUR	2.9%+3m Euribor	21,915	0	0	21,915	26 Mar 2010
Investment loan	EUR	1.5%+6m Euribor	26,748	53,497	60,180	140,425	11 Jan 2013
Investment loan	EUR	4.1%	21,060	44,781	0	65,841	31 Jul 2012
Investment loan	EUR	4.4%+6m Euribor	19,639	17,664	0	37,303	23 Apr 2011
Investment loan	EUR	1.2%+6m Euribor	0	28,946	0	28,946	8 Nov 2011
Investment loan	EUR	4.25%	9,820	0	0	9,820	10 Jun 2010
Investment loan	EUR	6.19%	709	6,060	0	6,769	18 Sept 2017
Investment loan	EUR	0.7%+6m Euribor	2,200	0	0	2,200	21 Apr 2010
Investment loan <sup>1</sup>	EUR	1.5%+3m Euribor	1,079	1,532	0	2,611	30 Apr 2012
Investment loan <sup>1</sup>	EUR	1.5%+3m Euribor	533	908	0	1,441	30 Jul 2012
Investment loan <sup>1</sup>	EUR	1.5%+3m Euribor	250	525	0	775	30 Nov 2012
Working capital loan	EEK	5%	0	0	15,399	15,399	1 Aug 2014
Working capital loan <sup>1</sup>	EUR	10%	5,949	0	0	5,948	31 May 2010
Working capital loan	EUR	6.75%	3,700	0	0	3,700	25 Sept 2010
Working capital loan <sup>1</sup>	EUR	10%	309	0	0	309	30 Dec 2009
Working capital loan <sup>1</sup>	LVL	10%	310	0	0	310	30 Dec 2009
Stock financing	EUR	5.98%	4,387	0	0	4,387	15 Apr 2010
<b>Total loans</b>			<b>220,525</b>	<b>153,913</b>	<b>75,579</b>	<b>450,016</b>	

<sup>1</sup> The loan liabilities were related to the Group's Latvian subsidiary Nordecon Infra SIA and its subsidiaries. The Group disposed of its interest in the Latvian company before the arrival of the maturity dates of the loans (see note 7).

EUR'000 Loan type	Base currency	Interest rate	Up to 1 year	1-2 years	3-... years	Total loan	Maturity date
Overdraft	EUR	2.5%+6m Euribor	5,060	0	0	5,060	15 Jan 2010
Overdraft	EUR	3.82%	1,454	0	0	1,454	30 Apr 2010
Overdraft <sup>1</sup>	EUR	2.9%+3m Euribor	1,401	0	0	1,401	26 Mar 2010
Investment loan	EUR	1.5%+6m Euribor	1,710	3,419	3,846	8,975	11 Jan 2013
Investment loan	EUR	4.1%	1,346	2,862	0	4,208	31 Jul 2012
Investment loan	EUR	4.4%+6m Euribor	1,255	1,129	0	2,384	23 Apr 2011
Investment loan	EUR	1.2%+6m Euribor	0	1,850	0	1,850	8 Nov 2011
Investment loan	EUR	4.25%	628	0	0	628	10 Jun 2010
Investment loan	EUR	6.19%	45	387	0	432	18 Sept 2017
Investment loan	EUR	0.7%+6m Euribor	141	0	0	141	21 Apr 2010
Investment loan <sup>1</sup>	EUR	1.5%+3m Euribor	69	98	0	167	30 Apr 2012
Investment loan <sup>1</sup>	EUR	1.5%+3m Euribor	34	58	0	92	30 Jul 2012
Investment loan <sup>1</sup>	EUR	1.5%+3m Euribor	16	34	0	50	30 Nov 2012
Working capital loan	EEK	5%	0	0	984	984	1 Aug 2014
Working capital loan <sup>1</sup>	EUR	10%	380	0	0	380	31 May 2010
Working capital loan	EUR	6.75%	236	0	0	236	25 Sept 2010
Working capital loan <sup>1</sup>	EUR	10%	20	0	0	20	30 Dec 2009
Working capital loan <sup>1</sup>	LVL	10%	20	0	0	20	30 Dec 2009
Stock financing	EUR	5.98%	280	0	0	280	15 Apr 2010
<b>Total loans</b>			<b>14,094</b>	<b>9,837</b>	<b>4,830</b>	<b>28,761</b>	

## NOTE 20. Finance and operating leases

### The Group as a lessee

	Note	2010	EEK'000 2009	2010	EUR'000 2009
<b>Finance lease liability at beginning of year</b>		<b>107,270</b>	<b>145,282</b>	<b>6,857</b>	<b>9,285</b>
Effect of business combinations		-11,515	0	-738	0
Addition during the period		6,931	13,017	443	832
Principal payments made during the period		-37,230	-51,029	-2,379	-3,261
<b>Finance lease liability at end of year of which</b>		<b>65,456</b>	<b>107,270</b>	<b>4,183</b>	<b>6,857</b>
Payable in less than 1 year	19	32,937	42,434	2,105	2,712
Payable between 1 and 5 years	19	32,519	64,836	2,078	4,145
Base currency	EUR	65,182	105,513	4,166	6,744
Base currency	UAH	274	1,757	17	112
Interest rate for EUR based contracts <sup>1</sup>		3.0%-8.0%	3.5%-7.5%	3.0%-8.0%	3.5%-7.5%
Interest rate for UAH based contracts		10%-12%	17%-19%	10%-12%	17%-19%
Interest expense of the period		2,485	4,555	159	291
Settlement frequency		Monthly	Monthly	Monthly	Monthly

<sup>1</sup> Including leases with a floating interest rate

Based on effective contracts, future minimum non-cancellable finance lease rentals are payable as follows:

EEK'000	2010			2009		
			Present value of minimum lease rentals			Present value of minimum lease rentals
Payable in	Minimum lease rentals <sup>1</sup>	Interest		Minimum lease rentals <sup>1</sup>	Interest	
Less than 1 year	34,721	1,784	32,937	46,749	4,315	42,434
Between 1 and 5 years	33,632	1,113	32,519	69,710	4,874	64,836
<b>Total</b>	<b>68,353</b>	<b>2,897</b>	<b>65,456</b>	<b>116,459</b>	<b>9,189</b>	<b>107,270</b>

EUR'000	2010			2009		
	Minimum		Present value	Minimum		Present value
Payable in	lease rentals <sup>1</sup>	Interest	of minimum	lease rentals <sup>1</sup>	Interest	of minimum
			lease rentals			lease rentals
Less than 1 year	2,219	114	2,105	2,988	276	2,712
Between 1 and 5 years	2,149	71	2,078	4,455	310	4,145
<b>Total</b>	<b>4,368</b>	<b>185</b>	<b>4,183</b>	<b>7,443</b>	<b>586</b>	<b>6,857</b>

<sup>1</sup> Minimum lease rentals for leases with a floating interest rate have been determined based on the EURIBOR rate effective at the reporting date.

## Operating lease expenses

Operating lease expenses recognised during the reporting period:

Operating lease expenses recognised for	EEK'000		EUR'000	
	2010	2009	2010	2009
Cars	10,288	27,066	658	1,730
Construction equipment	25,520	36,631	1,631	2,341
Premises	5,794	9,783	370	625
Software	3,512	8,794	224	562
<b>Total operating lease rentals paid</b>	<b>45,114</b>	<b>82,274</b>	<b>2,883</b>	<b>5,258</b>

According to effective contracts, future operating lease rentals are payable as follows:

		EEK'000	EUR'000
Within 1 year	Minimum amount of lease rentals payable	26,823	1,714
Between 1 and 5 years	Minimum amount of lease rentals payable	45,486	2,907

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

## NOTE 21. Trade payables

	Note	EEK'000		EUR'000	
		31 Dec 2010	31 Dec 2009	31 Dec 2010	31 Dec 2009
Trade payables		207,403	244,764	13,256	15,643
Accrued expenses related to contract work		63,690	132,332	4,071	8,458
Payables to related parties	37	1,602	829	102	53
<b>Total short-term trade payables</b>		<b>272,695</b>	<b>377,925</b>	<b>17,429</b>	<b>24,154</b>
Trade payables		3,362	4,846	215	310
<b>Total long-term trade payables</b>		<b>3,362</b>	<b>4,846</b>	<b>215</b>	<b>310</b>

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.

## NOTE 22. Other payables

	EEK'000		EUR'000	
	31 Dec 2010	31 Dec 2009	31 Dec 2010	31 Dec 2009
Payables to employees	29,818	47,333	1,906	3,025
Taxes payable	22,344	45,438	1,428	2,904
Accrued expenses	1,755	1,742	111	111
Miscellaneous payables	9	67	1	4
<b>Total short-term portion of other payables</b>	<b>53,926</b>	<b>94,580</b>	<b>3,446</b>	<b>6,044</b>
Other payables	1,500	1,500	96	96
<b>Total long-term portion of other payables</b>	<b>1,500</b>	<b>1,500</b>	<b>96</b>	<b>96</b>

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	
	31 Dec 2010	31 Dec 2009	31 Dec 2010	31 Dec 2009
Value added tax	7,000	20,172	448	1,289
Personal income tax	3,899	7,309	249	467
Social tax	7,831	13,286	500	849
Miscellaneous taxes	3,614	4,671	231	299
<b>Total taxes payable</b>	<b>22,344</b>	<b>45,438</b>	<b>1,428</b>	<b>2,904</b>



## NOTE 23. Deferred income

			EEK'000		EUR'000
	Note	31 Dec 2010	31 Dec 2009	31 Dec 2010	31 Dec 2009
Due to customers from contract work	28	60,610	119,983	3,874	7,668
Prepayments received for goods and services		8,626	16,455	551	1,052
<b>Total deferred income</b>		<b>69,236</b>	<b>136,438</b>	<b>4,425</b>	<b>8,720</b>

## NOTE 24. Provisions

			EEK'000		EUR'000
		31 Dec 2010	31 Dec 2009	31 Dec 2010	31 Dec 2009
Short-term provisions		18,144	10,364	1,160	662
Long-term provisions		6,621	7,041	423	450
<b>Total provisions</b>		<b>24,765</b>	<b>17,405</b>	<b>1,583</b>	<b>1,112</b>

## Changes in the value of provisions:

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 to five) 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 statement of financial position and classified as current and non-current items based on the expiry of the warranty period.

		EEK'000		EUR'000
Warranties provisions	2010	2009	2010	2009
<b>Opening balance</b>	<b>16,627</b>	<b>14,597</b>	<b>1,063</b>	<b>933</b>
Acquired/disposed of through business combinations	-2,189	6,051	-140	387
Provisions used and reversed during the year	-7,142	-15,621	-456	-998
Provisions created during the year	13,499	11,600	862	741
<b>Closing balance of which</b>	<b>20,795</b>	<b>16,627</b>	<b>1,329</b>	<b>1,063</b>
Current portion	14,174	9,586	906	613
Non-current portion	6,621	7,041	423	450

		EEK'000		EUR'000
Other provisions	2010	2009	2010	2009
<b>Opening balance</b>	<b>778</b>	<b>3,633</b>	<b>50</b>	<b>232</b>
Provisions created during the year	3,194	566	204	36
Provisions used and reversed during the year	-2	-3,421	0	-219
<b>Closing balance of which</b>	<b>3,970</b>	<b>778</b>	<b>254</b>	<b>49</b>
Current portion	3,970	778	254	49
Non-current portion	0	0	0	0

## NOTE 25. Share capital and reserves

## Share capital

		EEK'000		EUR'000
	2010	2009	2010	2009
At 1 January	307,567	307,567	19,657	19,657
<b>At 31 December</b>	<b>307,567</b>	<b>307,567</b>	<b>19,657</b>	<b>19,657</b>

According to the articles of association, the minimum and maximum authorised share capital of Nordecon 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 10 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.



## Capital reserve

The Estonian 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:

Dividend information	2010	2009
Dividend per share, EEK	-	1.00 kroon per share
Dividend per share, EUR	-	0.06 euros per share
Total dividends paid, EEK'000	-	30,757
Total dividends paid, EUR'000	-	1,966

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' non-controlling shareholders.

The income tax payable on dividends is recognised as an expense in the period in which the dividend is declared.

## NOTE 26. 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.

		EEK '000		EUR '000
	2010	2009	2010	2009
Profit/loss for the period attributable to equity holders of the Parent	-184,792	-45,740	-11,811	-2,923
Weighted average number of shares	In thousands	30,757	30,757	30,757
Basic earnings per share	-6.01	-1.49	-0.38	-0.09
Diluted earnings per share	-6.01	-1.49	-0.38	-0.09

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

## NOTE 27. Segment reporting – business segments

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

The operating segments monitored by the chief operating decision maker include both a business and a geographical dimension. The Group's reportable operating segments are:

- Buildings (European Union)
- Buildings (Ukraine and Belarus)
- Infrastructure (European Union)

Other segments comprise insignificant operating segments whose results are not reviewed by the chief operating decision maker on the basis of internally generated financial information.

The chief operating decision maker assesses the performance of an operating segment and the utilisation of the resources allocated to it through the profit generated by the segment. The profit of an operating segment is its gross profit that does not include any major exceptional expenditures (such as non-recurring asset write-downs). The expenses after the profit of an operating segment (including distribution and administrative expenses, interest

expense, income tax expense) are not used by the chief operating decision maker to assess the performance of the segment on the basis of internally generated financial information. Such expenses are recorded in segment reporting using the same principles that are applied on their recognition in the financial statements.

As a holding company, the Group's Parent Nordecon AS did not participate in the core business and it was not classified as an operating segment. Adjustments made to bring segment reporting in compliance with consolidated figures are mainly related to the activities of the Parent company. On 31 December 2010 the subsidiaries Nordecon Infra AS and Nordecon Ehitus AS were merged with the Parent. Their closing statements of financial position were prepared as of 30 September 2010. Their figures for the period October-December 2010 were consolidated with the Parent (the acquirer). Since the merged entities (acquirees) remained involved in operating activities, their figures for the rest of the year are presented in segment reporting.

## 2010

EEK'000	Buildings EU	Buildings UKR/BLR	Infrastructure EU	Other segments	Total
Total revenue	793,746	82,522	749,889	59,438	1,685,595
Inter-segment revenue	-89,238	-460	-13,217	-30,271	-133,186
<b>Revenue from external customers</b>	<b>704,508</b>	<b>82,062</b>	<b>736,672</b>	<b>29,167</b>	<b>1,552,409</b>
<b>Segment profit/loss</b>	<b>8,320</b>	<b>11,422</b>	<b>-16,026</b>	<b>-8,139</b>	<b>-4,423</b>
Interest income	2,820	6,221	1,526	0	10,567
Interest expense	-6,538	-7,228	-2,335	-1,931	-18,032
Depreciation and amortisation	-2,319	-3,712	-25,082	-15,203	-46,316
Other significant non-cash transactions including write-down of assets <sup>1</sup>	-4,715	0	0	0	-4,715
<b>Segment loss before tax</b>	<b>-120,263</b>	<b>-651</b>	<b>-46,358</b>	<b>-10,143</b>	<b>-177,415</b>
Share of loss of equity-accounted investees	-8,077	0	-20	0	-8,097
<b>Segment assets</b>	<b>790,050</b>	<b>168,721</b>	<b>468,695</b>	<b>102,085</b>	<b>1,529,551</b>
Investments in equity-accounted investees	1,542	0	0	0	1,542
Capital expenditures	677	636	7,324	0	8,637
Segment liabilities	462,792	137,195	315,298	62,309	977,594

<sup>1</sup> Includes write-down of goodwill.

EUR'000	Buildings EU	Buildings UKR/BLR	Infrastructure EU	Other segments	Total
Total revenue	50,730	5,274	47,927	3,799	107,729
Inter-segment revenue	-5,703	-29	-845	-1,935	-8,512
<b>Revenue from external customers</b>	<b>45,026</b>	<b>5,245</b>	<b>47,082</b>	<b>1,864</b>	<b>99,217</b>
<b>Segment profit/loss</b>	<b>532</b>	<b>730</b>	<b>-1,024</b>	<b>-520</b>	<b>-283</b>
Interest income	180	398	98	0	675
Interest expense	-418	-462	-149	-123	-1,152
Depreciation and amortisation	-148	-237	-1,603	-972	-2,960
Other significant non-cash transactions including write-down of assets <sup>1</sup>	-301	0	0	0	-301
<b>Segment loss before tax</b>	<b>-7,686</b>	<b>-42</b>	<b>-2,963</b>	<b>-648</b>	<b>-11,339</b>
Share of loss of equity-accounted investees	-516	0	-1	0	-517
<b>Segment assets</b>	<b>50,493</b>	<b>10,783</b>	<b>29,955</b>	<b>6,524</b>	<b>97,756</b>
Investments in equity-accounted investees	99	0	0	0	99
Capital expenditures	43	41	468	0	552
Segment liabilities	29,578	8,768	20,151	3,982	62,480

<sup>1</sup> Includes write-down of goodwill.

## 2009

EEK'000	Buildings EU	Buildings UKR	Infrastructure EU	Other segments	Total
Total revenue	1,163,499	73,724	1,258,382	69,710	2,565,315
Inter-segment revenue	-11,949	-91	-88,974	-51,572	-152,586
<b>Revenue from external customers</b>	<b>1,151,550</b>	<b>73,633</b>	<b>1,169,408</b>	<b>18,138</b>	<b>2,412,729</b>
<b>Segment profit/loss</b>	<b>98,886</b>	<b>698</b>	<b>1,135</b>	<b>-330</b>	<b>100,389</b>
Interest income	1,685	5,894	0	0	7,579
Interest expense	-7,529	-16,842	-6,878	-3,023	-34,272
Depreciation and amortisation	-3,793	-1,481	-37,352	-22,645	-65,271
Other significant non-cash transactions including write-down of assets <sup>1</sup>	-57,221	0	-8,156	-8,289	-73,666
<b>Segment profit/loss before tax</b>	<b>4,650</b>	<b>-27,400</b>	<b>-67,463</b>	<b>-14,290</b>	<b>-104,503</b>
Share of loss of equity-accounted investees	-7,666	0	0	0	-7,666
<b>Segment assets</b>	<b>911,552</b>	<b>175,630</b>	<b>646,553</b>	<b>121,780</b>	<b>1,855,515</b>
Investments in equity-accounted investees	2,192	0	0	0	2,192
Capital expenditures	476	1,375	30,694	2,144	34,689
Segment liabilities	459,071	143,273	497,341	72,086	1,171,771

<sup>1</sup> Includes write-down of investment properties and goodwill.

EUR'000	Buildings EU	Buildings UKR	Infrastructure EU	Other segments	Total
Total revenue	74,361	4,712	80,425	4,455	163,954
Inter-segment revenue	-764	-6	-5,686	-3,296	-9,752
<b>Revenue from external customers</b>	<b>73,597</b>	<b>4,706</b>	<b>74,739</b>	<b>1,159</b>	<b>154,201</b>
<b>Segment profit/loss</b>	<b>6,320</b>	<b>45</b>	<b>73</b>	<b>-21</b>	<b>6,416</b>
Interest income	108	377	0	0	484
Interest expense	-481	-1,076	-440	-193	-2,190
Depreciation and amortisation	-242	-95	-2,387	-1,447	-4,172
Other significant non-cash transactions including write-down of assets <sup>1</sup>	-3,657	0	-521	-530	-4,708
<b>Segment profit/loss before tax</b>	<b>297</b>	<b>-1,751</b>	<b>-4,312</b>	<b>-913</b>	<b>-6,679</b>
Share of loss of equity-accounted investees	-490	0	0	0	-490
<b>Segment assets</b>	<b>58,259</b>	<b>11,225</b>	<b>41,322</b>	<b>7,783</b>	<b>118,589</b>
Investments in equity-accounted investees	140	0	0	0	140
Capital expenditures	30	88	1,962	137	2,217
Segment liabilities	29,340	9,157	31,786	4,607	74,890

<sup>1</sup> Includes write-down of investment properties and goodwill.

## Adjustments

	2010	EEK'000 2009	2010	EUR'000 2009
Interest income for reportable and other segments	10,567	7,579	675	484
Adjustments	811	3,726	53	238
<b>Consolidated interest income</b>	<b>11,378</b>	<b>11,305</b>	<b>728</b>	<b>723</b>
Interest expense for reportable and other segments	-18,032	-34,272	-1,152	-2,190
Adjustments	1,526	7,635	97	488
<b>Consolidated interest expense</b>	<b>-16,506</b>	<b>-26,637</b>	<b>-1,055</b>	<b>-1,702</b>

Depreciation and amortisation for reportable and other segments	-46,316	-65,271	-2,960	-4,172
Adjustments	-3,588	-4,570	-229	-292
<b>Consolidated depreciation and amortisation</b>	<b>-49,904</b>	<b>-69,841</b>	<b>-3,189</b>	<b>-4,464</b>
Other significant non-cash transactions for reportable and other segments including write-down of assets	-4,715	-73,666	-301	-4,708
Adjustments	-1,710	0	-110	0
<b>Consolidated other significant non-cash transactions including write-down of assets</b>	<b>-6,425</b>	<b>-73,666</b>	<b>-411</b>	<b>-4,708</b>
Capital expenditures for reportable and other segments	8,637	34,689	552	2,217
Adjustments	0	7,528	0	481
<b>Consolidated capital expenditures for reportable segments</b>	<b>8,637</b>	<b>42,217</b>	<b>552</b>	<b>2,698</b>
Liabilities for reportable and other segments	977,594	1,171,771	62,480	74,890
Elimination of inter-segment liabilities	-189,422	-193,008	-12,107	-12,336
Adjustments	178,810	211,218	11,428	13,499
<b>Consolidated liabilities</b>	<b>966,982</b>	<b>1,189,981</b>	<b>61,802</b>	<b>76,053</b>

The prices applied in inter-segment transactions did not differ significantly from arm's length market prices.

## Reconciliation of segment revenues

	2010	EEK'000 2009		EUR'000 2009
Total revenues for reportable segments	1,626,157	2,495,605	103,930	159,498
Revenue for other segments	59,438	69,710	3,799	4,455
Elimination of inter-segment revenues	-133,186	-152,586	-8,512	-9,752
Other revenue	1,481	6,151	95	393
<b>Total consolidated revenue</b>	<b>1,553,890</b>	<b>2,418,880</b>	<b>99,312</b>	<b>154,594</b>

## Reconciliation of segment profit

	2010	EEK'000 2009	2010	EUR'000 2009
Total profit for reportable segments	3,716	100,719	237	6,437
Total loss for other segments	-8,139	-330	-520	-21
Other profit/loss	-6,528	35,916	-417	2,295
<b>Total gross profit/loss</b>	<b>-10,951</b>	<b>136,305</b>	<b>-700</b>	<b>8,711</b>
Unallocated expenses:				
Distribution expenses	-6,276	-9,416	-401	-602
Administrative expenses	-76,459	-125,206	-4,887	-8,002
Other operating income / expenses	-46,737	-128,422	-2,987	-8,207
<b>Consolidated operating loss</b>	<b>-140,423</b>	<b>-126,739</b>	<b>-8,975</b>	<b>-8,100</b>
Finance income	47,863	86,513	3,059	5,529
Finance expenses	-99,171	-33,934	-6,338	-2,169
Share of loss of equity-accounted investees	-8,097	-7,666	-517	-490
<b>Consolidated loss before tax</b>	<b>-199,828</b>	<b>-81,826</b>	<b>-12,771</b>	<b>-5,230</b>

## Reconciliation of segment assets

	31 Dec 2010	EEK'000 31 Dec 2009	31 Dec 2010	EUR'000 31 Dec 2009
Total assets for reportable segments	1,427,466	1,733,735	91,232	110,805
Total assets from other segments	102,085	121,780	6,525	7,783
Inter-segment eliminations	-94,940	-88,553	-6,068	-5,660
Other assets	55,575	123,730	3,552	7,908
<b>Total consolidated assets</b>	<b>1,490,186</b>	<b>1,890,692</b>	<b>95,241</b>	<b>120,836</b>

## Segment reporting – geographical information

Revenue	EEK'000		EUR'000	
	2010	2009	2010	2009
Estonia	1,449,320	2,065,366	92,629	132,001
Ukraine	37,309	73,724	2,384	4,712
Lithuania	0	10,678	0	682
Latvia	0	270,277	0	17,274
Finland	22,217	0	1,420	0
Belarus	45,213	0	2,890	0
Inter-segment eliminations	-169	-1,165	-11	-74
<b>Total revenue</b>	<b>1,553,890</b>	<b>2,418,880</b>	<b>99,312</b>	<b>154,594</b>

Assets based on geographical location <sup>1</sup>	EEK'000		EUR'000	
	2010	2009	2010	2009
Estonia	458,283	516,499	29,290	33,010
Ukraine	2,340	3,990	149	255
Latvia	0	39,778	0	2,542
Lithuania	41	56	3	4
Belarus	184	0	12	0
<b>Total assets</b>	<b>460,848</b>	<b>560,323</b>	<b>29,454</b>	<b>35,811</b>

<sup>1</sup> Includes investment properties, property, plant and equipment and intangible assets.

## Changes made to segment reporting in the reporting period

The composition of segments was changed in 2010. The subsidiary Nordecon Betoone OÜ was reclassified to the segment of Buildings (EU) because historically most of its business has been related to buildings construction. In previous periods, it was included in the Infrastructure (EU) segment because it was part of the Nordecon Infra subgroup that was primarily engaged in infrastructure construction. In addition, the Group specified the allocation of segment expenses, assets and liabilities.

The effect of the changes on the comparative data for 2009:

EEK'000	Buildings EU	Buildings UKR	Infrastructure EU	Other segments	Total
Revenue from external customers	169,780	0	-169,780	0	0
Segment profit	19,222	0	-19,222	0	0
Interest expense	-2,656	-15,753	-3,549	1,007	-20,951
Segment profit before tax	-13,216	0	7,560	0	-5,656
Segment assets	76,972	1,142	-375	5,852	83,591
Segment liabilities	59,974	113,235	14,668	5,131	193,008

EUR'000	Buildings EU	Buildings UKR	Infrastructure EU	Other segments	Total
Revenue from external customers	10,851	0	-10,851	0	0
Segment profit	1,229	0	-1,229	0	0
Interest expense	-170	-1,007	-227	64	-1,339
Segment profit before tax	-845	0	483	0	-361
Segment assets	4,919	73	-24	374	5,342
Segment liabilities	3,833	7,237	937	328	12,335

## NOTE 28. Construction contracts

### Financial information on the Group's active construction contracts:

Active construction contracts from date of commencement	31 Dec 2010	EEK'000	31 Dec 2010	EUR'000
		31 Dec 2009		31 Dec 2009
Costs under stage of completion method	972,908	1,580,853	62,180	101,035
Estimated gross profit	15,485	142,577	990	9,112
Revenue under stage of completion method	988,393	1,723,430	63,170	110,148
Progress billings	1,002,475	1,807,866	64,070	115,544
<b>Difference between total progress billings and revenue recognised under stage of completion method</b>	<b>-14,082</b>	<b>-84,436</b>	<b>-900</b>	<b>-5,396</b>
Including due from customers (note 9)	46,528	35,547	2,974	2,272
Including due to customers (note 23)	60,610	119,983	3,874	7,668

At the reporting date, retentions under construction contracts (see note 9) totalled 17,534 thousand kroons (1,121 thousand euros). The corresponding figure for 2009 was 36,884 thousand kroons (2,357 thousand euros).

### Sensitivity analysis for stage of completion

A 5% change in the estimated stage of completion of all active construction contracts would have the following impact on the Group's revenue and estimated gross profit for the period:

	2010		2009	
	EEK'000	EUR'000	EEK'000	EUR'000
Change in revenue +5%	78,299	5,004	93,500	5,976
Change in estimated gross profit	4,955	317	3,300	211
Change in revenue -5%	-78,425	-5,012	-93,500	-5,976
Change in estimated gross profit	-5,118	-327	-3,300	-211

## NOTE 29. Cost of sales

	2010		2009	
	EEK'000	EUR'000	EEK'000	EUR'000
Materials, goods and services used	1,311,450	1,919,920	83,818	122,705
Personnel expenses	184,518	287,859	11,793	18,398
Other expenses	23,585	10,091	1,507	645
Depreciation and amortisation expense	45,288	64,705	2,894	4,135
<b>Total cost of sales</b>	<b>1,564,841</b>	<b>2,282,575</b>	<b>100,012</b>	<b>145,883</b>

## NOTE 30. Administrative expenses

	2010		2009	
	EEK'000	EUR'000	EEK'000	EUR'000
Personnel expenses	42,255	75,601	2,701	4,832
Materials, goods and services used	25,168	38,189	1,609	2,441
Other expenses	4,420	6,280	282	401
Depreciation and amortisation expense	4,616	5,136	295	328
<b>Total administrative expenses</b>	<b>76,459</b>	<b>125,206</b>	<b>4,887</b>	<b>8,002</b>

## NOTE 31. Other operating income and other operating expenses

### Other operating income

	2010		2009	
	EEK'000	EUR'000	EEK'000	EUR'000
Gains on sale of property, plant and equipment and intangible assets	5,563	3,709	356	237
Gain on sale and revaluation of real estate	285	0	18	0
Foreign exchange gain	737	0	47	0
Other income	6,243	21,883	399	1,399
<b>Total other operating income</b>	<b>12,828</b>	<b>25,592</b>	<b>820</b>	<b>1,636</b>

**Other operating expenses**

			EEK`000		EUR`000
	Note	2010	2009	2010	2009
Losses on sale and write-off of property, plant and equipment and intangible assets		385	10,249	25	655
Write-down of goodwill	7, 18	6,425	61,206	411	3,912
Net loss from write-down and recovery of receivables	9, 34	40,080	42,049	2,561	2,687
Write-down of investment property		0	12,460	0	796
Losses on sale of investment property		2,023	7,823	129	500
Foreign exchange losses		7,708	29	493	2
Membership fees		84	134	5	9
Other expenses		2,860	20,064	183	1,282
<b>Total other operating expenses</b>		<b>59,565</b>	<b>154,014</b>	<b>3,807</b>	<b>9,843</b>

Net loss from write-down and recovery of receivables includes the write-down of construction contract receivables related to the Pärnu Keskus shopping mall and its car park of 42,234 thousand kroons (2,699 thousand euros).

**NOTE 32. Finance income and finance expenses****Finance income**

			EEK`000		EUR`000
	Note	2010	2009	2010	2009
Gains on disposal of investments in subsidiaries	7	32,626	737	2,085	47
Foreign exchange gains		801	513	51	34
Interest income on loans		11,378	11,305	727	722
Finance income on other investments	7	0	46,263	0	2,956
Other finance income		3,058	27,695	196	1,770
<b>Total finance income</b>		<b>47,863</b>	<b>86,513</b>	<b>3,059</b>	<b>5,529</b>

The gain on the divestment of the subsidiary Nordecon Infra SIA amounted to 32,594 thousand kroons (2,083 thousand euros). The gain on the divestment of the subsidiary Bukovina Development TOV amounted to 32 thousand kroons (2 thousand euros).

Interest income on loans comprises interest income on loans granted to related parties.

**Finance expenses**

			EEK`000		EUR`000
		2010	2009	2010	2009
Interest expense		16,506	26,637	1,055	1,703
Other finance expenses		82,581	6,153	5,278	393
Foreign exchange losses		84	1,144	5	73
<b>Total finance expenses</b>		<b>99,171</b>	<b>33,934</b>	<b>6,338</b>	<b>2,169</b>

**Major components of other finance expenses**

After the disposal of the subsidiary Nordecon Infra SIA (see note 7), the Group wrote down receivables from the Latvian subsidiary which previously were accounted for as intra-Group loans because their recovery had become doubtful. Write-down expenses amounted to 14,175 thousand kroons (906 thousand euros).

Losses from settling the liabilities of the former subsidiary Nordecon Infra SIA for which Nordecon AS had undertaken to stand surety totalled 26,714 thousand kroons (1,707 thousand euros) (see note 7).

Expenses from the write-down of loans granted to non-Group legal persons and associated accrued interest receivables totalled 40,241 thousand kroons (2,572 thousand euros) (see note 9).



## NOTE 33. Income tax expense

	Note	2010	EEK'000 2009	2010	EUR'000 2009
<b>Current tax expense:</b>					
Income tax (on profit) using the Estonian tax rate <sup>1</sup>		0	0	0	0
Income tax in foreign jurisdictions		529	-1,646	33	-105
<b>Deferred tax expense:</b>					
Deferred tax expense from temporary differences		0	776	0	50
<b>Other income tax expense:</b>					
Income tax paid on dividends in Estonia <sup>2</sup>		0	8,489	0	543
<b>Total income tax expense</b>		<b>529</b>	<b>7,618</b>	<b>33</b>	<b>487</b>

<sup>1</sup> Under the Estonian tax legislation, the earnings of companies operating in Estonia are not subject to income tax.

<sup>2</sup> In Estonia, income tax is levied on the profit distributed as dividends. The tax rate for net dividends is 21/79. In 2009, the Group paid a net dividend (including dividends distributed to non-controlling shareholders) of 31,933 thousand kroons (2,041 thousand euros).

## NOTE 34. 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:

	Note	2010	EEK'000 2009	Carrying amount 2010	EUR'000 2009
Cash and cash equivalents	8	91,018	225,191	5,818	14,392
Trade receivables	9	239,695	338,767	15,319	21,651
Retentions receivable	9	17,534	37,930	1,121	2,424
Receivables from related parties	9	27,235	48,235	1,741	3,083
Loans to related parties	9	177,560	165,799	11,348	10,596
Loans to legal persons	9	0	40,241	0	2,572
Miscellaneous receivables	9	15,313	11,514	979	736
Due from customers for contract work	9	46,528	35,547	2,974	2,272
<b>Total</b>		<b>614,883</b>	<b>903,224</b>	<b>39,299</b>	<b>57,726</b>

Financial assets at the reporting date by geographical region:

	2010	EEK'000 2009	2010	EUR'000 2009
Estonia	459,286	653,711	29,354	41,779
Ukraine	134,636	153,635	8,605	9,819
Belarus	17,949	0	1,147	0
Latvia	0	95,477	0	6,102
Lithuania	13	276	1	18
Finland	2,999	125	192	8
<b>Total</b>	<b>614,883</b>	<b>903,224</b>	<b>39,299</b>	<b>57,726</b>

The ageing of short- and long-term trade receivables and associated impairment losses at the reporting date:

	EEK'000				EUR'000			
	31 Dec 2010		31 Dec 2009		31 Dec 2010		31 Dec 2009	
Past due	Trade receivables	Impairment allowance	Trade receivables	Impairment allowance	Trade receivables	Impairment allowance	Trade receivables	Impairment allowance
Not past due	180,235	0	225,565	0	11,519	0	14,417	0
0-30 days	13,785	0	9,095	0	881	0	581	0
31-180 days	39,918	0	72,012	0	2,551	0	4,602	0
Over 180 days <sup>1</sup>	51,991	-46,234	43,356	-11,261	3,323	-2,955	2,771	-720
<b>Total</b>	<b>285,929</b>	<b>-46,234</b>	<b>350,028</b>	<b>-11,261</b>	<b>18,274</b>	<b>-2,955</b>	<b>22,371</b>	<b>-720</b>

<sup>1</sup> Receivables that are 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.

## Changes in the impairment allowance for receivables:

	EEK'000		EUR'000	
	2010	2009	2010	2009
Opening balance	-11,261	-8,111	-720	-518
Doubtful items recovered during the year	4,055	0	259	0
Impairment losses on receivables	-44,135	-17,481	-2,821	-1,117
Items considered irrecoverable during the year	5,107	14,331	326	916
<b>Total</b>	<b>-46,234</b>	<b>-11,261</b>	<b>-2,956</b>	<b>-720</b>

In 2010, net loss from write-down and recovery of receivables amounted to 40,080 thousand kroons (2,562 thousand euros). In 2009, the corresponding figure was 17,481 thousand kroons (1,117 thousand euros). See also note 32.

## Liquidity risk

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

EEK'000		31 Dec 2010				
Financial liability	Carrying amount	Contractual cash flows	Less than 1 year	1-2 years	2-5 years	Over 5 years
Overdraft <sup>1</sup>	131,134	133,723	133,723	0	0	0
Bank and other loans	300,324	318,939	102,152	197,336	18,731	720
Finance lease liabilities	65,456	68,353	34,721	31,149	2,483	0
Factoring liability	44,584	44,720	44,720	0	0	0
Trade payables	276,057	276,057	272,695	3,362	0	0
Other payables	33,082	33,082	31,582	1,500	0	0
<b>Total</b>	<b>850,637</b>	<b>874,874</b>	<b>619,593</b>	<b>233,347</b>	<b>21,214</b>	<b>720</b>

EUR'000		31 Dec 2010				
Financial liability	Carrying amount	Contractual cash flows	Less than 1 year	1-2 years	2-5 years	Over 5 years
Overdraft <sup>1</sup>	8,381	8,546	8,546	0	0	0
Bank and other loans	19,194	20,384	6,529	12,612	1,197	46
Finance lease liabilities	4,183	4,369	2,219	1,991	159	0
Factoring liability	2,849	2,858	2,858	0	0	0
Trade payables	17,643	17,643	17,428	215	0	0
Other payables	2,114	2,114	2,018	96	0	0
<b>Total</b>	<b>54,364</b>	<b>55,914</b>	<b>39,598</b>	<b>14,914</b>	<b>1,356</b>	<b>46</b>

EEK'000		31 Dec 2009				
Financial liability	Carrying amount	Contractual cash flows	Less than 1 year	1-2 years	2-5 years	Over 5 years
Overdraft <sup>1</sup>	123,832	125,771	125,771	0	0	0
Bank and other loans	326,184	355,114	113,099	151,625	88,483	1,907
Finance lease liabilities	107,270	116,459	46,584	36,102	33,773	0
Trade payables	382,771	382,771	377,925	4,846	0	0
Other liabilities	50,642	50,642	49,142	1,500	0	0
<b>Total</b>	<b>990,699</b>	<b>1,030,757</b>	<b>712,521</b>	<b>194,073</b>	<b>122,256</b>	<b>1,907</b>

EUR'000		31 Dec 2009				
Financial liability	Carrying amount	Contractual cash flows	Less than 1 year	1-2 years	2-5 years	Over 5 years
Overdraft <sup>1</sup>	7,914	8,038	8,038	0	0	0
Bank and other loans	20,847	22,696	7,228	9,691	5,655	122
Finance lease liabilities	6,856	7,443	2,977	2,307	2,158	0
Trade payables	24,464	24,464	24,154	310	0	0
Other liabilities	3,237	3,237	3,141	96	0	0
<b>Total</b>	<b>63,318</b>	<b>65,878</b>	<b>45,538</b>	<b>12,404</b>	<b>7,814</b>	<b>122</b>

<sup>1</sup> Contractual cash flows have been determined based on the contract terms (interest rates and maturity dates) effective at the reporting date.

Banks have provided the Group with construction-related guarantees of 411,529 thousand kroons (26,301 thousand euros) (2009: 493,441 thousand kroons/31,537 thousand euros). According to management's estimates, at the reporting date the risk of the realisation of the guarantees was low. During the period 2007-2010 no bank guarantees were called.

## Currency risk

The Group's foreign currency risk exposure from cash and cash equivalents and receivables and liabilities denominated in foreign currencies (amounts presented in relevant currency):

							2010
'000	EEK	EUR	LTL	USD	BYR	UAH	UAH
Cash and cash equivalents	78,248	24	3	0	2,921,233	672	
Short-term receivables	757,219	7,261	28	1,121	1,768,965	7,298	
Long-term receivables	0	0	0	0	0	0	
<b>Total</b>	<b>835,467</b>	<b>7,285</b>	<b>31</b>	<b>1,121</b>	<b>4,690,198</b>	<b>7,970</b>	
Current liabilities	308,731	22,452	2	0	3,523,084	940	
Non-current liabilities	0	17,227	0	0	0	0	
<b>Total</b>	<b>308,731</b>	<b>39,679</b>	<b>2</b>	<b>0</b>	<b>3,523,084</b>	<b>940</b>	
<b>Net exposure</b>	<b>526,736</b>	<b>-32,394</b>	<b>29</b>	<b>1,121</b>	<b>1,167,114</b>	<b>7,030</b>	

							2009
'000	EEK	EUR	LVL	LTL	USD	UAH	UAH
Cash and cash equivalents	208,062	835	127	46	0	777	
Short-term receivables	396,690	11,038	1,196	1,338	1,006	23,664	
Long-term receivables	32,284	0	47	0	0	0	
<b>Total</b>	<b>637,036</b>	<b>11,873</b>	<b>1,370</b>	<b>1,384</b>	<b>1,006</b>	<b>24,441</b>	
Current liabilities	343,164	17,265	5,116	1,332	0	12,712	
Non-current liabilities	11,563	18,791	0	0	0	1,583	
<b>Total</b>	<b>354,727</b>	<b>36,056</b>	<b>5,116</b>	<b>1,332</b>	<b>0</b>	<b>14,295</b>	
<b>Net exposure</b>	<b>282,309</b>	<b>-24,183</b>	<b>-3,746</b>	<b>52</b>	<b>1,006</b>	<b>10,146</b>	

The following exchange rates applied at the reporting date:

	Date	Euro (EUR)	Latvian lats (LVL)	Lithuanian litas (LTL)	US dollar (USD)	Belarusian ruble (BYR)	Ukrainian hryvna (UAH)
1 kroon (EEK)	31 Dec 2010	0.0639	0.0454	0.2207	0.0854	256.26	0.6804
1 kroon (EEK)	31 Dec 2009	0.0639	0.0454	0.2207	0.0920	263.59	0.7409

A 10% weakening/strengthening of the Estonian kroon against the above currencies at 31 December 2010 would reduce/increase profit through the re-measurement of cash and cash equivalents and receivables and liabilities denominated in foreign currency by 47,873 thousand kroons (3,060 thousand euros). After the reporting date, the Estonian kroon (EEK) has been replaced by the euro (EUR) at the historical fixed exchange rate (see note 38) and the risk against the above currency can no longer realise. Excluding the currency risk of the euro, the impact of the weakening/strengthening of the Estonian kroon against the above currencies would reduce/increase profit by 2,815 thousand kroons (180 thousand euros).

The analysis assumes that all other variables remain constant.

## Interest rate risk

At the reporting date, the interest rate profile of the Group's interest-bearing financial instruments was as follows:

	Carrying amount		Carrying amount	
	2010	EEK'000	2010	EUR'000
		2009		2009
<b>Fixed rate financial instruments</b>				
Financial assets (loans to related parties and legal persons, notes 9 and 37)	177,560	206,040	11,348	13,168
Financial liabilities (note 19)	131,820	135,228	8,425	8,643

**Floating rate financial instruments**

Financial assets (cash and cash equivalents, note 8)	91,018	225,191	5,181	14,392
Financial liabilities (including finance lease liabilities) (note 19)	409,678	422,059	26,183	26,974
<b>Net exposure</b>	<b>-318,660</b>	<b>-196,868</b>	<b>-20,366</b>	<b>-12,582</b>

EURIBOR rates as at the reporting date:

	<b>2010</b>	<b>2009</b>
3 month EURIBOR	1.006%	0.700%
6 month EURIBOR	1.227%	0.994%

An increase/a decrease of 100 basis points in the variable part of the interest rate (EURIBOR) of floating rate instruments at the reporting date would affect interest-related cash flow and would increase/reduce profit for the next financial year by 3,458 thousand kroons (221 thousand euros) (2009: 1,479 thousand kroons/95 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:

<b>2010</b>	<b>EEK'000</b>		<b>EUR'000</b>	
	<b>Carrying amount</b>	<b>Fair value</b>	<b>Carrying amount</b>	<b>Fair value</b>
Cash and cash equivalents (note 8)	91,018	91,018	5,818	5,818
Trade receivables (note 9)	239,695	239,695	15,319	15,319
Retentions receivable (note 9)	17,534	17,534	1,121	1,121
Receivables from related parties (note 9)	27,235	27,235	1,741	1,741
Loans to related parties (note 9)	177,560	178,010	11,348	11,377
Other receivables (note 9)	15,313	15,313	979	979
Overdraft (note 19)	-131,134	-131,134	-8,381	-8,381
Bank and other loans (note 19)	-300,324	-300,357	-19,194	-19,208
Factoring liability (note 19)	-44,584	-44,584	-2,849	-2,849
Finance lease liabilities (note 19, 20)	-65,456	-65,456	-4,183	-4,183
Trade payables (note 21)	-274,455	-274,455	-17,541	-17,541
Payables to related parties (note 21)	-1,602	-1,602	-102	-102
Other payables (note 22)	-33,082	-33,082	-2,114	-2,114
<b>Unrealised gain</b>		<b>237</b>		<b>15</b>

<b>2009</b>	<b>EEK'000</b>		<b>EUR'000</b>	
	<b>Carrying amount</b>	<b>Fair value</b>	<b>Carrying amount</b>	<b>Fair value</b>
Cash and cash equivalents (note 8)	225,191	225,191	14,392	14,392
Trade receivables (note 9)	338,767	338,767	21,651	21,651
Retentions receivable (note 9)	37,930	37,930	2,424	2,424
Receivables from related parties (note 9)	48,235	48,235	3,083	3,083
Loans to related parties (note 9)	165,799	166,566	10,596	10,646
Loans to legal persons (note 9)	40,241	42,621	2,572	2,724
Other receivables (note 9)	11,514	11,514	736	736
Overdraft (note 19)	-123,832	-123,832	-7,914	-7,914
Bank and other loans (note 19)	-326,184	-322,067	-20,847	-20,584
Finance lease liabilities (note 19, 20)	-107,270	-107,270	-6,856	-6,856
Trade payables (note 21)	-381,942	-381,942	-24,411	-24,411
Payables to related parties (note 21)	-829	-829	-53	-53
Other liabilities (note 22)	-50,642	-50,642	-3,237	-3,237
<b>Unrealised gain</b>		<b>7,264</b>		<b>464</b>

The carrying amounts of the Group's current financial assets and liabilities do not differ significantly from their fair values. The carrying values of floating rate assets and liabilities also approximate their fair values because the floating part of the interest rate (Euribor) reflects the change in market interest rates.

Non-current fixed interest rate financial assets and liabilities were discounted using the following interest rates:

	<b>2010</b>	<b>2009</b>
<b>Average market interest rate</b>		
Loans given in Estonia	7%	6-7%
Loans received in Estonia	4.5%	4%
Loans received in Ukraine	-	15%

## NOTE 35. Contingent liabilities

### Contingent income tax liability

		EEK'000		EUR'000
	31 Dec 2010	31 Dec 2009	31 Dec 2010	31 Dec 2009
Retained earnings	160,488	345,280	10,257	22,067
Contingent income tax liability	33,703	72,509	2,154	4,634
The amount that could be distributed as the net dividend	126,785	272,771	8,103	17,433

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 2010.

### Bank guarantees issued and surety agreements

The Group has obtained bank guarantees and signed surety agreements to secure settlement of Group entities' commitments under construction contracts and their financial liabilities. The letters of guarantee that banks have issued to the Group's customers are secured with commercial pledges. The guarantees expire within up to five years. Based on historical experience, the realisation probability of the guarantees and surety commitments is low. Therefore, they have not been recognised as liabilities in the statement of financial position.

At the reporting date, the Group's guarantee and surety liabilities totalled 444,406 thousand kroons (28,403 thousand euros). The corresponding figure for the comparative period was 515,148 thousand kroons (32,924 thousand euros).

#### Guarantees issued by banks:

- At the reporting date, the guarantees issued to customers by Swedbank AS for securing Group entities' commitments under construction contracts totalled 339,690 thousand kroons (21,710 thousand euros). The corresponding figure for the comparative period was 298,207 thousand kroons (19,059 thousand euros);
- At the reporting date, the guarantees issued to customers by AS SEB Pank for securing Group entities' commitments under construction contracts totalled 71,839 thousand kroons (4,591 thousand euros). The corresponding figure for the comparative period was 195,234 thousand kroons (12,478 thousand euros).

#### Surety agreements:

Group entities stand surety for the liabilities of some non-Group associates and joint ventures. The surety commitments total 32,877 thousand kroons (2,101 thousand euros). The corresponding figure for the comparative period was 28,010 thousand kroons (1,790 thousand euros).

## NOTE 36. Assets pledged as collateral

The Group has secured its financial liabilities with commercial pledges, mortgages of real property and pledges of shares in subsidiaries.

### Commercial pledges

At the reporting date, the Parent and the subsidiaries had pledged their movable property under commercial pledges to the extent of 727,700 thousand kroons (46,509 thousand euros). The corresponding figure for the comparative period was 833,381 thousand kroons (53,263 thousand euros).

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

### Mortgages

At the reporting date, the total value of immovable property (plots and buildings) mortgaged by the Group's subsidiaries amounted to 386,593 thousand kroons (24,708 thousand euros). The corresponding figure for the comparative period was 246,840 thousand kroons (15,776 thousand euros).

Assets of the following classes have been mortgaged:

Asset class	EEK'000		EUR'000	
	2010	2009	2010	2009
Inventories (note 11)	364,593	223,140	23,302	14,261
Investment property (note 16)	10,000	11,700	639	748
Property, plant and equipment (land and buildings) (note 17)	12,000	12,000	767	767
<b>Total</b>	<b>386,593</b>	<b>246,840</b>	<b>24,708</b>	<b>15,776</b>

#### Share pledges

The Group has secured its investment loans by pledging its ordinary shares in the following subsidiaries: Eston Ehitus AS (98%) (2009: the same).

## NOTE 37. Transactions with related parties

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

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

During the reporting period, Group entities performed purchase and sales transactions with related parties in the following volumes:

Volume of transactions performed	2010		EEK'000		2010		EUR'000	
	Purchase	Sale	Purchase	Sale	Purchase	Sale	Purchase	Sale
AS Nordic Contractors	6,628	65	7,589	778	424	4	485	50
Companies of AS Nordic Contractors group	41	15,963	0	159,614	3	1,020	0	10,201
Associates	0	403	0	8,108	0	26	0	518
Companies related to a member of the council	1,187	1,735	479	0	76	111	31	0
<b>Total</b>	<b>7,856</b>	<b>18,166</b>	<b>8,068</b>	<b>168,500</b>	<b>503</b>	<b>1,161</b>	<b>516</b>	<b>10,769</b>

Nature of transactions performed	2010		EEK'000		2010		EUR'000	
	Purchase	Sale	Purchase	Sale	Purchase	Sale	Purchase	Sale
Construction services	0	17,409	0	159,126	0	1,113	0	10,170
Purchase and sale of goods	0	0	0	1,266	0	0	0	81
Lease and other services	7,856	757	8,068	8,108	503	48	516	518
<b>Total</b>	<b>7,856</b>	<b>18,166</b>	<b>8,068</b>	<b>168,500</b>	<b>503</b>	<b>1,161</b>	<b>516</b>	<b>10,769</b>

In 2010 the Group recognised interest income on loans granted to associates of 7,418 thousand kroons/474 thousand euros (2009: 10,601 thousand kroons/678 thousand euros), on loans granted to joint ventures of 1,349 thousand kroons/86 thousand euros (2009: 1,115 thousand kroons/71 thousand euros) and on loans granted to other related parties of 2,362 thousand kroons/151 thousand euros (2009: 2,238 thousand kroons/143 thousand euros).

**Receivables from and liabilities to related parties as at period-end (see notes 9 and 21):****EEK'000**

	<b>31 Dec 2010</b>		<b>31 Dec 2009</b>	
	<b>Receivables</b>	<b>Payables</b>	<b>Receivables</b>	<b>Payables</b>
AS Nordic Contractors	0	1,521	21	809
Companies of AS Nordic Contractors group	37,147	0	57,425	15
Companies related to a member of the council	1,092	59	0	0
Associates - receivables	15,716	22	15,793	6
Associates – loans and interest	125,796	0	121,235	0
Joint ventures – loans and interest	25,044	0	19,560	0
<b>Total</b>	<b>204,795</b>	<b>1,602</b>	<b>214,034</b>	<b>830</b>

**EUR'000**

	<b>31 Dec 2010</b>		<b>31 Dec 2009</b>	
	<b>Receivables</b>	<b>Payables</b>	<b>Receivables</b>	<b>Payables</b>
AS Nordic Contractors	0	97	1	52
Companies of AS Nordic Contractors group	2,374	0	3,670	1
Companies related to a member of the council	70	4	0	0
Associates - receivables	1,004	1	1,009	0
Associates – loans and interest	8,040	0	7,748	0
Joint ventures – loans and interest	1,601	0	1,250	0
<b>Total</b>	<b>13,089</b>	<b>102</b>	<b>12,080</b>	<b>53</b>

Receivables from companies of AS Nordic Contractors group and associates are mainly related to construction services.

**Loans to related parties:****EEK'000**

	<b>Related party</b>	<b>Interest rate</b>	<b>Currency</b>	<b>Loan</b>	<b>2010 Of which interest</b>	<b>Loan</b>	<b>2009 Of which interest</b>
Kastani Kinnisvara OÜ	Associate	10.0%	EEK	5,317	787	8,046	0
Crislivinca OÜ	Associate	6.0%	EEK	0	0	7,117	612
Sepavara OÜ	Associate	6.0%	EEK	2,738	323	2,088	192
Pigipada OÜ	Associate	5.0%	EEK	4,515	92	0	0
Technopolis-2 TOV	Associate	9.8%	EUR	13,127	3,540	10,931	2,315
V.I. Center TOV	Associate	6.0%	EUR	100,100	13,195	93,053	8,042
Unigate OÜ	Joint venture	6.0%	EUR	25,044	4,509	19,560	3,160
Arealis AS	Company of Nordic Contractors group	9.0%	EEK	26,719	1,719	25,004	4
<b>Total</b>				<b>177,560</b>	<b>24,165</b>	<b>165,799</b>	<b>14,325</b>
Of which current portion				146,367	19,333	137,034	10,361
Of which non-current portion				31,193	4,832	28,765	3,964

**EUR'000**

	<b>Related party</b>	<b>Interest rate</b>	<b>Currency</b>	<b>Loan</b>	<b>2010 Of which interest</b>	<b>Loan</b>	<b>2009 Of which interest</b>
Kastani Kinnisvara OÜ	Associate	10.0%	EEK	340	50	514	0
Crislivinca OÜ	Associate	6.0%	EEK	0	0	455	39
Sepavara OÜ	Associate	6.0%	EEK	175	21	133	12
Pigipada OÜ	Associate	5.0%	EEK	289	6	0	0
Technopolis-2 TOV	Associate	9.8%	EUR	839	226	699	148
V.I. Center TOV	Associate	6.0%	EUR	6,396	843	5,947	514
Unigate OÜ	Joint venture	8.0%	EUR	1,601	288	1,250	202
Arealis AS	Company of Nordic Contractors group	9.0%	EEK	1,708	110	1,598	0
<b>Total</b>				<b>11,348</b>	<b>1,544</b>	<b>10,596</b>	<b>915</b>
Of which current portion				9,354	1,236	8,758	662
Of which non-current portion				1,994	309	1,838	253

In the reporting period, the Group gave associates loans of 8,475 thousand kroons/542 thousand euros (2009: 13,406 thousand kroons /857 thousand euros).

In 2010 a loan given to OÜ Kastani Kinnisvara was transformed into an investment in the entity of 5,000 thousand kroons (320 thousand euros) (see note 13). In the reporting period, the Group reversed a write-down of a loan recognised in the previous period to the extent of 1,175 thousand kroons (75 thousand euros) (the write-down recognised in 2009 amounted to 3,317 thousand kroons/212 thousand euros). The revenue from the reversal of the previously recognised write-down has been recognised within finance expenses.



In the reporting period, the Group gave joint ventures loans of 4,135 thousand kroons/264 thousand euros (2009: 0 thousand kroons/0 thousand euros).

#### Remuneration of the members of the board and council

In 2010, the remuneration of the members of the board of Nordecon AS including social security charges totalled 3,120 thousand kroons (199 thousand euros). The corresponding figure for 2009 was 3,254 thousand kroons (208 thousand euros). The remuneration of the board has decreased because in the comparative period the board had more members, on average, than in the reporting period.

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 the termination. Payment of termination benefits is at the discretion of the council.

In 2010, the remuneration of the members of the council of Nordecon AS including social security charges totalled 1,436 thousand kroons (92 thousand euros). In 2009, the corresponding figure was also 1,436 thousand kroons (92 thousand euros).

## NOTE 38. Subsequent events

#### Change in the Group's functional and presentation currency

On 1 January 2011, Estonia joined the euro-zone and the Estonian kroon (EEK) was replaced by the euro (EUR). As a result, the Group converted its financial accounting and reporting to euros effective from the same date and the financial statements for 2011 and subsequent years will be prepared and presented in euros. Comparative prior period data in the accounts for 2011 will be translated using the official exchange rate fixed for the switchover of 15.6466 kroons to 1 euro.

## NOTE 39. Parent company's unconsolidated primary 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 are used as in preparing the consolidated financial statements, except that investments in subsidiaries, joint ventures and associates are measured at cost less any impairment losses.

### Statement of financial position (unconsolidated)

As at 31 December	2010	EEK`000 2009	2010	EUR`000 2009
<b>ASSETS</b>				
<b>Current assets</b>				
Cash and cash equivalents	54,992	17,027	3,515	1,088
Trade and other receivables	419,053	214,505	26,782	13,709
Prepayments	9,785	2,538	625	162
Inventories	257,417	9,865	16,452	630
<b>Total current assets</b>	<b>741,247</b>	<b>243,935</b>	<b>47,374</b>	<b>15,590</b>
<b>Non-current assets</b>				
Investments in subsidiaries	170,149	259,865	10,875	16,608
Investments in associates	1,550	0	99	0
Investment property	25,763	0	1,647	0
Trade and other receivables	42,545	15,177	2,719	970
Property, plant and equipment	55,292	7,451	3,534	476
Intangible assets	133,172	7,660	8,510	490
<b>Total non-current</b>	<b>428,471</b>	<b>290,153</b>	<b>27,384</b>	<b>18,544</b>
<b>TOTAL ASSETS</b>	<b>1,169,718</b>	<b>534,088</b>	<b>74,758</b>	<b>34,134</b>
<b>LIABILITIES</b>				
<b>Current liabilities</b>				
Loans and borrowings	245,239	133,177	15,674	8,511
Trade payables	173,763	8,189	11,105	523
Taxes payable	10,120	1,454	647	93
Other payables	68,602	64,040	4,384	4,093
Deferred income	60,089	5,283	3,840	338
Provisions	8,143	1,669	520	107
<b>Total current liabilities</b>	<b>565,956</b>	<b>213,812</b>	<b>36,170</b>	<b>13,665</b>
<b>Non-current liabilities</b>				
Loans and borrowings	167,728	45,106	10,720	2,883
Other payables	2,782	2,472	178	158
Provisions	5,994	922	383	59
<b>Total non-current liabilities</b>	<b>176,504</b>	<b>48,500</b>	<b>11,281</b>	<b>3,100</b>
<b>TOTAL LIABILITIES</b>	<b>742,460</b>	<b>262,312</b>	<b>47,451</b>	<b>16,765</b>
<b>EQUITY</b>				
Share capital	307,567	307,567	19,657	19,657
Share premium	8,899	0	569	0
Statutory capital reserve	39,644	25,644	2,534	1,639
Retained earnings	71,148	-61,435	4,547	-3,926
<b>TOTAL EQUITY</b>	<b>427,258</b>	<b>271,776</b>	<b>27,307</b>	<b>17,370</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>1,169,718</b>	<b>534,088</b>	<b>74,758</b>	<b>34,134</b>

## Statement of comprehensive income (unconsolidated)

	EEK'000		EUR'000	
	2010	2009	2010	2009
Revenue	262,544	43,457	16,780	2,777
Cost of sales	-247,737	-7,540	-15,833	-482
<b>Gross profit</b>	<b>14,807</b>	<b>35,917</b>	<b>947</b>	<b>2,295</b>
Distribution expenses	-3,823	-4,154	-244	-265
Administrative expenses	-31,374	-27,976	-2,005	-1,788
Other operating income	397	454	25	29
Other operating expenses	-764	-1,145	-49	-73
<b>Operating profit/loss</b>	<b>-20,757</b>	<b>3,096</b>	<b>-1,326</b>	<b>198</b>
Finance income	7,481	27,608	478	1,764
Finance expenses	-59,196	-13,683	-3,783	-874
<b>Net finance income/expense</b>	<b>-51,715</b>	<b>13,925</b>	<b>-3,305</b>	<b>890</b>
<b>Profit/loss before income tax</b>	<b>-72,472</b>	<b>17,020</b>	<b>-4,631</b>	<b>1,088</b>
Income tax expense	0	-7,837	0	-501
<b>Profit/loss for the period</b>	<b>-72,472</b>	<b>9,183</b>	<b>-4,631</b>	<b>587</b>
<b>Total comprehensive income/expense for the period</b>	<b>-72,472</b>	<b>9,183</b>	<b>-4,631</b>	<b>587</b>

## Statement of cash flows (unconsolidated)

	2010	EEK'000 2009	2010	EUR'000 2009
<b>Cash flows from operating activities</b>				
Cash receipts from customers <sup>1</sup>	617,460	866,123	39,463	55,355
Cash paid to suppliers <sup>2</sup>	-617,713	-844,498	-39,479	-53,973
Cash paid to and for employees	-43,169	-50,405	-2,759	-3,221
Income taxes paid	0	-7,837	0	-501
VAT paid	-8,433	0	-539	0
Other operating expenses paid	-8,626	-63	-551	-4
<b>Net cash used in operating activities</b>	<b>-60,481</b>	<b>-36,680</b>	<b>-3,865</b>	<b>-2,344</b>
<b>Cash flows from investing activities</b>				
Acquisition of intangible assets	0	-7,500	0	-479
Proceeds from sale of property, plant and equipment and intangible assets	76	458	5	29
Acquisition of subsidiaries	500	0	32	0
Proceeds from disposal of subsidiaries	-605	-5,040	-39	-322
Acquisition of intangible assets	140	140,425	9	8,975
Cash received on merger with the subsidiaries	94,627	0	6,048	0
Loans granted	-5,351	-59,276	-342	-3,788
Repayment of loans granted	7,660	53,288	490	3,406
Dividends received	0	1,274	0	81
Interest received	2,546	20,402	163	1,304
<b>Net cash from investing activities</b>	<b>99,593</b>	<b>144,031</b>	<b>6,366</b>	<b>9,206</b>
<b>Cash flows from financing activities</b>				
Proceeds from loans received	84,947	91,023	5,429	5,817
Repayment of loans received	-71,967	-221,349	-4,600	-14,147
Dividends paid	0	-30,757	0	-1,966
Payment of finance lease liabilities	-3,222	-267	-206	-17
Interest paid	-10,859	-15,268	-694	-976
Other payments	-46	0	-3	0
<b>Net cash used in financing activities</b>	<b>-1,147</b>	<b>-176,618</b>	<b>-74</b>	<b>-11,289</b>
<b>Net cash flow</b>	<b>37,965</b>	<b>-69,267</b>	<b>2,427</b>	<b>-4,427</b>
Cash and cash equivalents at beginning of period	17,027	86,294	1,088	5,515
Increase/decrease in cash and cash equivalents	37,965	-69,267	2,427	-4,427
<b>Cash and cash equivalents at end of period</b>	<b>54,992</b>	<b>17,027</b>	<b>3,515</b>	<b>1,088</b>

<sup>1</sup> Cash receipts from customers include the VAT paid by the customers

<sup>2</sup> Cash paid to suppliers includes the VAT paid by the company to the state

## Statement of changes in equity (unconsolidated)





EEK'000	Share capital	Share premium	Statutory capital reserve	Retained earnings	Total
<b>At 31 December 2008</b>	<b>307,567</b>	<b>0</b>	<b>20,432</b>	<b>15,301</b>	<b>343,300</b>
Profit for the period	0	0	0	9,183	9,183
Dividends declared	0	0	0	-30,757	-30,757
Transfer to capital reserve	0	0	5,212	-5,212	0
Business combinations between entities under common control	0	0	0	-49,950	-49,950
<b>At 31 December 2009</b>	<b>307,567</b>	<b>0</b>	<b>25,644</b>	<b>-61,435</b>	<b>271,776</b>
Carrying amount of interests under control and significant influence	-	-	-	-	-259,864
Value of interests under control and significant influence under the equity method	-	-	-	-	519,938
<b>Adjusted unconsolidated equity at 31 December 2009</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>531,850</b>
<b>At 31 December 2009</b>	<b>307,567</b>	<b>0</b>	<b>25,644</b>	<b>-61,435</b>	<b>271,776</b>
Loss for the period	0	0	0	-72,472	-72,472
Business combinations between entities under common control	0	8,899	14,000	205,055	227,954
<b>At 31 December 2010</b>	<b>307,567</b>	<b>8,899</b>	<b>39,644</b>	<b>71,148</b>	<b>427,258</b>
Carrying amount of interests under control and significant influence	-	-	-	-	-171,699
Value of interests under control and significant influence under the equity method	-	-	-	-	98,567
<b>Adjusted unconsolidated equity at 31 December 2010</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>354,126</b>

EUR'000	Share capital	Share premium	Statutory capital reserve	Retained earnings	Total
<b>At 31 December 2008</b>	<b>19,657</b>	<b>0</b>	<b>1,306</b>	<b>978</b>	<b>21,941</b>
Profit for the period	0	0	0	587	587
Dividends declared	0	0	0	-1,966	-1,966
Transfer to capital reserve	0	0	333	-333	0
Business combinations between entities under common control	0	0	0	-3,192	-3,192
<b>At 31 December 2009</b>	<b>19,657</b>	<b>0</b>	<b>1,639</b>	<b>-3,926</b>	<b>17,370</b>
Carrying amount of interests under control and significant influence	-	-	-	-	-16,608
Value of interests under control and significant influence under the equity method	-	-	-	-	33,230
<b>Adjusted unconsolidated equity at 31 December 2009</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>33,992</b>
<b>At 31 December 2009</b>	<b>19,657</b>	<b>0</b>	<b>1,639</b>	<b>-3,926</b>	<b>17,370</b>
Loss for the period	0	0	0	-4,632	-4,632
Business combinations between entities under common control	0	569	895	13,105	14,569
<b>At 31 December 2010</b>	<b>19,657</b>	<b>569</b>	<b>2,534</b>	<b>4,547</b>	<b>27,307</b>
Carrying amount of interests under control and significant influence	-	-	-	-	-10,974
Value of interests under control and significant influence under the equity method	-	-	-	-	6,300
<b>Adjusted unconsolidated equity at 31 December 2010</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>22,633</b>

## Signatures

The board of Nordecon AS has prepared management's discussion and analysis, the consolidated financial statements and the profit allocation proposal for 2010.

### Board of directors

Jaano Vink	Chairman of the Board		18 April 2011
Avo Ambur	Member of the Board		18 April 2011
Marko Raudsik	Member of the Board		18 April 2011
Erkki Suurorg	Member of the Board		18 April 2011

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 and profit allocation proposal and has approved its presentation to the general meeting of the shareholders.

### Council

Toomas Luman	Chairman of the Council		18 April 2011
Alar Kroodo	Vice-Chairman of the Council		18 April 2011
Ain Tromp	Member of the Council		18 April 2011
Andri Hõbemägi	Member of the Council		18 April 2011
Tiina Mõis	Member of the Council		18 April 2011
Meelis Milder	Member of the Council		18 April 2011



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## Independent Auditor's Report

To the shareholders of Nordecon AS

We have audited the accompanying consolidated financial statements of Nordecon AS ("the Company"), which comprise the consolidated statement of financial position as at 31 December 2010, the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

### Management's Responsibility for the Consolidated 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, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### 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 (Estonia). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated 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 consolidated 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 consolidated financial position of the Company as at 31 December 2010, 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.

Andres Root  
Authorized Public Accountant No 9  
KPMG Baltics OÜ  
Licence No 17  
Narva mnt 5, Tallinn  
18 April 2011

KPMG Baltics OÜ, an Estonian limited liability company and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. Reg no 10056082.



## Profit allocation proposal

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

	EEK'000	EUR'000
Retained earnings of prior periods	345,280	22,067
Loss for 2010	-184,792	-11,810
<b>Total distributable profits at 31 December 2010</b>	<b>160,488</b>	<b>10,257</b>

The board proposes that profits be retained.

Jaano Vink

Chairman of the Board



18 April 2011

Avo Ambur

Member of the Board



18 April 2011

Marko Raudsik

Member of the Board



18 April 2011

Erkki Suurorg

Member of the Board



18 April 2011