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Domicile	Republic of Estonia
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E-mail	nordecon@nordecon.com
Corporate website	www.nordecon.com
Core activities	Construction of residential and non-residential buildings (EMTAK 4120) Construction of roads and motorways (EMTAK 4211) Road maintenance (EMTAK 4211) Construction of utility projects for fluids (EMTAK 4221) Construction of water projects (EMTAK 4291) Construction of other civil engineering projects (EMTAK 4299)
Financial year	1 January 2011 – 31 December 2011
Council	Toomas Luman (chairman), Alar Kroodo, Andri Hõbemägi, Tiina Mõis, Meelis Milder, Ain Tromp
Board	Jaano Vink (chairman), Avo Ambur, Marko Raudsik, Erkki Suurorg
Auditor	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 to become one of the leading construction groups in Estonia and a strong player 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 reasonable balance between buildings and infrastructure construction. We have gradually extended our offering with activities that support the core business such as road maintenance, concrete works and other services, which provide added value, improve the Group's operating efficiency and help manage our business risks.

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

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

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 and hold international quality management certificate ISO 9001, international environment management certificate ISO 14001 and 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 premier integrated 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

By keeping our promises and honouring our agreements we are reliable partners for our customers. 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

A year ago when we were analysing our results and making plans for the future, we thought that the economic environment and the construction market were in for a period of gradual recovery and revival. A superficial review of the macroeconomic indicators for 2011 seems to indicate that this is exactly what happened. According to preliminary data, the Estonian nominal GDP (expressed in current prices) grew by 7.6% and construction production by around 31%. However, it seems that the construction sector figure is mainly a reaction to 2010, when construction output was record-low, and not an indication of any fundamental change. We have always strived to see the big picture and have therefore considered also those economic indicators, which are less direct, but still relevant for the construction market. These, as well as the uncertainties which emerged in the euro-zone in the second half of the year, reflect the possibility of a new slowdown.

Accordingly, our current expectations of future developments in the construction sector are more restrained. Considering that in 2008 to 2011 the Estonian banking system drained almost 3.5 billion euros from the private sector by encouraging growth in deposits and reduction of loan liabilities, it is obvious that in the next few years growth in private capital spending will remain but modest. We believe that the construction market will sustain reactionary growth in 2012 but without private

sector capital expenditures there is no reason to anticipate recurrence of the growth rates of the previous year. In such a market, Nordecon Group has to rely both on its historical and more recent, internally generated competitive advantages.

In this regard, we are pleased to report that the work we have done to create a uniform corporate structure, to streamline management of the construction process and to secure the right human resources has been recognised by our foreign partners and it has translated into higher productivity. In 2011 the fact that we are on the right track was affirmed by the leading European strategy consulting firm Roland Berger Strategy Consultants and the measures enforced by us yielded a 62% improvement in productivity while productivity in the local construction sector rose by 22% and in the entire Estonian economy by 16%. We have taken another step towards realizing our business creed – to offer the customer a construction service that is delivered on time and to generally accepted quality standards using those and only those resources that we ourselves have originally planned. In 2012 we are going to focus on taking advantage of all the preconditions, which have been created, in order to restore the Group's profitability.

Toomas Luman
Chairman of the Council



CHIEF EXECUTIVE'S STATEMENT

After 2010 builders thought they could start breathing more easily and early last spring it seemed that the worst was over and we could soon enjoy a more positive period of recovery. However, since the second half of the year optimism has been decreasing and to date it is clear that the exit from the recent economic crisis will be difficult and protracted. On the bright side, we can see that recovery is taking hold and gradual progress should ensure steadier results.

In 2011 the Estonian construction market witnessed the emergence of a new reality as stiff competition and strenuous circumstances reduced the number of players in the infrastructure segment close to optimal. Similar developments are expected in building construction. The process will take some time but it is obvious that the number of companies interested only in general contracting or project management is too large for the Estonian market. Inevitably, those involved will have to choose whether and how to continue. According to recent market trends, companies with medium-sized turnover are losing ground while two or three leading players, including Nordecon, are strengthening their positions.

Last year, after the hardships of 2010, the toughest period in our 20-year history, our team regained its confidence and focused on streamlining the processes of various components in Nordecon's value chain. We can already see an improvement in our organisational and operational performance indicators. What's more, our new contracts reflect better prospects of ending the year with a positive net result. However, it would be futile to dream of quick and easy wins. Instead we are facing a long stretch of strenuous, albeit productive work. I have great faith in Nordecon's employees and their skills, strength and desire to move ahead towards a common goal.

Although the Group's full-year result was still on the negative side, this was mainly caused by a few large loss-making contracts secured in earlier periods. On the whole, the proportion of new contracts with a positive gross margin grew consistently throughout the year.

In the last days of 2011 we substantially completed the seaplane hangars of the Estonian Maritime Museum, an exceptional reconstruction project that put our entire organisation's skills of coping with complex conditions to the test. The unique museum building, which will be opened soon, is a sound testimony to Nordecon's capabilities as a builder. Besides this, we delivered in line with the agreed terms and conditions many other quality assets across Estonia. The best-known buildings and facilities include the AHHA Science Centre in Tartu, a bio-filter for the wastewater treatment plant on the Paljassaare peninsula in Tallinn, the Koidula railway border station complex in southern Estonia which is an important link in Estonia's transit and foreign trade, a parking area for trucks crossing the border at Sillamäe and the renovated premises of Pärnu museum which is an important venue for local cultural events. On the other hand, much of the work we do remains out of sight: in 2011 the total length of water and wastewater networks built or renovated by Nordecon in different parts of Estonia exceeded a couple of hundred kilometres.

In 2012 we look ahead with clear knowledge that we have learned from the experience gained and the mistakes made in tough times, and that thanks to well-designed organisational changes in the next few years Nordecon can focus on seizing the opportunities offered by the reviving construction market.

Jaano Vink

Chairman of the Board



MANAGEMENT OF THE GROUP

EXTENDED BOARD OF NORDECON AS

Raimo Talviste

Head of Finance
and
Investor Relations

Ingrid Aloe-Kiisel

Legal Director

Maret Tambek

Chief Accountant
of the Group

Jaano Vink

Chairman of the
Management
Board

Mall Ivalo

Human Resources
Director

Avo Ambur

Member of the
Management Board,
Sales and
Pre-construction
Operations



MANAGEMENT OF THE GROUP

EXTENDED BOARD OF NORDECON AS

Ain Pähkel

Head of Road
Construction
and Production
Division

Jaanus Taro

Road
Construction
Director

Martin Viilep

Construction
Director,
North-Estonia

Erkki Suurorg

Member of
Management
Board,
Infrastructure

Kaido Somelar

Construction
Director,
South-Estonia

Reedik Raudla

Engineering
Director

Kaspar Kaldjärv

Road Maintenance
and Technical
Equipment
Director



MANAGEMENT OF THE GROUP

MEMBERS OF BOARDS, NORDECON GROUP SUBSIDIARIES

Mait Rõõmusaar

Nordecon Betoon OÜ,
Member of the
Management Board

Peep Sakk

Eston Ehitus AS,
Manager

Toomas Toompuu

Nordecon Betoon OÜ,
Member of the
Management Board

Mati Kalme

Kaurits OÜ,
Manager

Raigo Sahtel

Hiiu Teed OÜ,
Manager

Peep Õun

Järva Teed AS,
Manager

MANAGEMENT'S DISCUSSION AND ANALYSIS

GROUP STRATEGY AND OBJECTIVES UNTIL 2013

In line with the strategy approved by the council in 2010, in the next few years the Group will have to focus on its core business in its main market, Estonia, where Nordecon is represented in practically all segments of the construction market and can rely on extensive local experience.

In order to adapt to changes in the external environment, we will have to continue implementing the plans made for internal restructuring and proactive cost and risk management. Only this will allow achieving profitability and year-over-year growth in operating volumes. It is also the only way of creating opportunities for successfully entering the growth phase of the market when it emerges (applies also to target foreign markets).

According to the strategy, until 2013 (inclusive) the Group will focus on the above. The approach for 2012-2013 is aimed at supporting the Group's recovery from the slump and preparing ground for seizing the opportunities offered by a steadier market growth that is anticipated to emerge in 2012.

In the near term, we will not seek to increase revenue without applying measures that ensure profitability because this might lead to taking unjustified risks in a situation where rapidly rising input prices may have a strong impact on companies' performance in subsequent periods.

NORDECON GROUP'S MAIN STRATEGIC OBJECTIVES UNTIL 2013

- To complete the significant adjustments to the Group's structure and management 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 building construction operations in Ukraine in line with the former 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 becomes 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 be by the end of 2013 a leading construction group in Estonia that earns half of its revenue from infrastructure and the other half from building construction

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".



Design and reconstruction of level crossings on national basic road no 39 Tartu – Jõgeva – Aravete km 29.5-32.2 and on secondary roads no 14200 Pikkjärve – Tõrve and no 14204 Kaarepere – Palamuse

Location: Kaarepere village, Palamuse rural municipality, Jõgeva county
Customer: Estonian Road Administration (Southern Region)
Architect: Ramboll Eesti AS and Nordecon AS
Time: January 2011 – October 2011
Contractor: Nordecon AS
Project manager: Madis Padu

ORGANISATION OF THE GROUP'S ESTONIAN AND FOREIGN OPERATIONS IN 2011

ESTONIAN OPERATIONS

The Group continued to operate in the buildings and infrastructure segments, being active in practically all market sub-segments. Since the beginning of 2011, a significant proportion of the Group's core business has been conducted by the parent, Nordecon AS, which at the end of 2010 merged with its subsidiaries Nordecon Ehitus AS and Nordecon Infra AS, which were involved in building and infrastructure construction respectively. In addition to the parent, project management services were rendered by the subsidiary AS Eston Ehitus, which operates mostly in western and central Estonia. At the same time, Nordecon AS continued to act as a holding company for the Group's main Estonian and foreign subsidiaries (except the Ukrainian ones).

As regards other main 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 area in Harju county and in Järva and Hiiu counties (delivered through Nordecon AS, Järva Teed AS and Hiiu Teed OÜ respectively).

In 2011 the Group did not enter any new operating segments.

FOREIGN OPERATIONS

Latvia

Since the disposal of the Latvian subsidiary in 2010, the Group has not conducted any construction operations in Latvia. We have currently no construction contracts in progress in Latvia and no subsidiaries domiciled in Latvia.

Lithuania

The Group's Lithuanian subsidiary Nordecon Statyba UAB did not conduct any business operations in 2011. Suspension of the Lithuanian operations did not cause any major costs for the Group.

Ukraine

In Ukraine, we focused on doing business with (foreign) private sector customers in the buildings segment. The local construction market stayed in a slump and the number of new contracts remained modest. We continued to operate with minimal costs and human resources, maintaining a level where we could re-launch project management services as and when necessary. There were no changes in our development activities – the operation of the two real estate companies in which we have an interest has been suspended for three years already. Still, we achieved an important breakthrough in one of the development projects. Despite legal complexities, we were able to initiate the privatisation of a property, which is held under a long-term lease. This should increase the realisable value of the project. Information on changes concerning the holding company of the Group's Ukrainian operations is presented in the chapter *Group structure*.

Belarus

In the reporting period the Group's Belarusian subsidiary Eurocon Stroi IOOO performed only one contract, construction of a production facility for a Finnish food industry company that had been started earlier. The more complicated contract work was done in 2011. We have decided that after the delivery of the facility the Group will exit the Belarusian market. According to the Group's development strategy, Belarus was not a target foreign market and the contract was undertaken to explore Belarusian business opportunities. The decision was prompted by the fact that the Belarusian business and legal environment is not yet sufficiently transparent and supportive for doing business in the construction sector.

Finland

Group company Nordecon Betoon OÜ and its Finnish subsidiary Estcon Oy continued providing subcontracting services in the concrete works sector. Altogether, in 2011 they provided services in Finland under nine contracts.



Repair of national road no 77 Kuressaare – Sääre km 2.8-6.9 (Kuressaare – Nasva section)

Location: Kaarma rural municipality, Saare county
Customer: Estonian Road Administration
Architect: Ramboll Eesti AS
Time: April 2011 – October 2011
Contractor: Nordecon AS
Project manager: Martin Paabo

PERFORMANCE BY GEOGRAPHICAL MARKET

In 2011, the Group's Estonian revenue accounted for around 97% of its total revenue. In 2010 the contribution of the Estonian market was around 94%. Revenue from Ukraine and Belarus decreased while revenue generated in Finland increased. However, the main growth was achieved in the Estonian market where revenue increased by 54%.

	2011	2010	2009	2008	2007
Estonia	97%	94%	86%	80%	88%
Ukraine	0%	2%	3%	12%	11%
Lithuania	0%	0%	0%	2%	1%
Latvia	0%	0%	11%	6%	0%
Belarus	1%	3%	0%	0%	0%
Finland	2%	1%	0%	0%	0%

PERFORMANCE BY BUSINESS LINE

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

The Group ended 2011 with revenue of 147,802 thousand euros, 49% up on the 99,312 thousand euros generated in 2010. The downturn that had impacted the construction sector in the Group's home market, Estonia, for almost three years bottomed out in 2010. The Group's revenue growth in 2011 was driven by the following factors: a decline in competition in certain market segments, successful bidding for projects in various infrastructure sub-segments, and slight market growth in the buildings segment. Successful use of internal resources allowed the Group to increase revenue at a rate that exceeded the growth of the Estonian construction market (see the chapter *Construction volumes in the Estonian market*).

The Group aims, among other things, to maintain the revenues of its operating segments (Buildings and Infrastructure) in balance as this helps disperse risks and provides better opportunities for continuing operations under stressed circumstances when one segment experiences shrinkage. The Group has set an internal ceiling for revenue from the construction of apartment buildings, which has to remain below 20% of the Group's total sales.

Construction volumes in the Estonian market

According to Statistics Estonia, in 2011 Estonian construction companies' total production (output) amounted to 1,678 million euros (including 1,491 million euros generated in Estonia), which is almost a third more than in 2010. Buildings were built for 979 million euros and infrastructure assets for 699 million euros. The figure for building construction includes repair and renovation turnover (including work on detached houses) which accounts for an increasingly larger proportion of total building construction. The trend is confirmed by a continuing decrease in the construction of new buildings. Accordingly, as regards new investments, the main source for growth is support received from the EU structural funds, which is mainly allocated for the construction of various infrastructure assets. Compared with 2010, the real growth rates (measured in constant prices) for building and infrastructure construction were 28% and 25% respectively. The large growth figures result primarily from a low comparative base in 2010 when the construction market was at its lowest. Despite strong growth figures, in real terms (based on constant prices) construction output for 2011 was comparable to that for 2005.

Construction volumes*	2011	2010	2009	2008	2007	2006	2005
Construction production (output), EUR millions	1,491	1,142	1,372	2,163	2,501	1,990	1,481

* In current prices

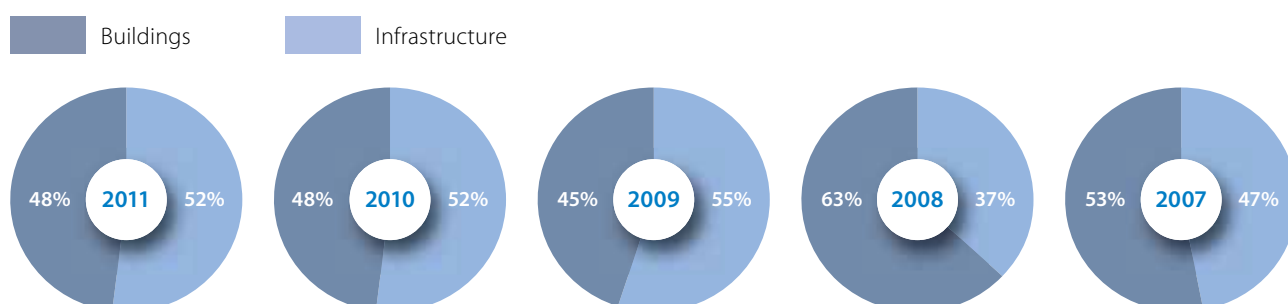
SEGMENT REVENUE

In 2011, the revenues of our two main business segments were practically equal. Buildings and Infrastructure ended the year with revenue of 70,357 thousand euros and 72,735 thousand euros respectively. The corresponding figures for 2010 were 50,271 thousand euros and 47,082 thousand euros.

Currently, the majority of tenders in the construction market are related to infrastructure (mainly projects financed with the support of the state and the EU structural funds) and the majority (80% at the reporting date) of contracts in the Group's order book belong to the Infrastructure segment (see the chapter *Order book*). Despite this, the segments' revenues have been practically equal because our existing building construction contracts have 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.

Revenue distribution between segments¹

Business segments



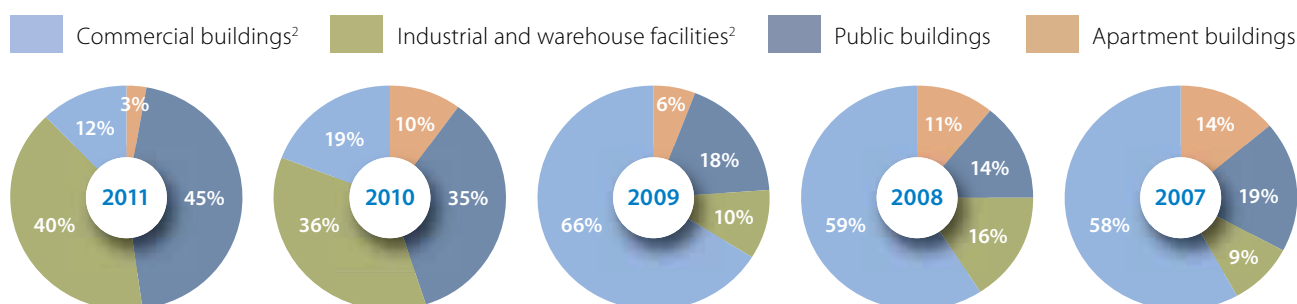
¹ In connection with the entry into force of IFRS 8 *Operating Segments*, the Group has changed segment reporting in its financial statements. In *Management's discussion and analysis* the Ukrainian and Belarusian buildings segment and the EU buildings segment, which are disclosed separately in the financial statements, are presented as a single segment. In addition, the segment information presented in *Management's discussion and analysis* does not include the disclosures on "other segments" that are presented in the financial statements.

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

Revenue distribution within segments

In the Buildings segment, most of the revenue for 2011 resulted from the construction of public buildings and industrial facilities. In the public buildings sub-segment, the largest contracts were the construction of buildings for the Koidula border station, an academic building for the Social Sciences Faculty of the University of Tartu, buildings for Ämari Air Base, and a new exhibition building for the Estonian Maritime Museum. In the industrial and warehouse facilities sub-segment, most of the revenue was earned on the construction of agricultural buildings, and a food production facility built in Belarus. Compared with earlier years, the contribution of the commercial buildings sub-segment decreased considerably because private sector investment remained sluggish. Apartment buildings were built for non-Group customers, as a general contractor. There were no self-developed apartment projects.

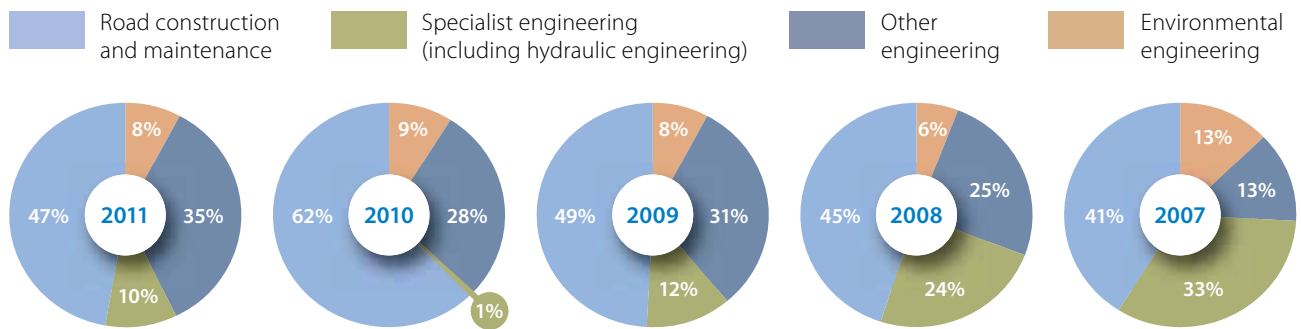
Revenue distribution within the Buildings segment



² The 2010 figures for Commercial buildings and Industrial and warehouse facilities have been adjusted (in the annual report for 2010 the figures were 37% and 18% respectively). The change resulted from the reclassification of revenue from the construction of agricultural assets.

As anticipated, in the Infrastructure segment most of the revenue was generated by road construction and maintenance. The contribution of the construction of water and wastewater networks (other engineering) was expectedly large as well. Thanks to the EU support, this is currently one of the best-funded areas in Estonia. The European Union also supports the performance of various environmental engineering projects that account for quite a large proportion of the Group's operations. The contribution of specialist engineering increased, as expected, through the construction of facilities for Sillamäe port.

Revenue distribution within the Infrastructure segment





**Repair of and preparation of technical design for national road no 10 Risti – Virtsu – Kuivastu – Kuressaare km 34.8-40.3
(Kirbla-Hälvati section)**

Location: Lihula rural municipality, Lääne county
Customer: Estonian Road Administration
Architect: Nordecon AS
Time: March 2011 – September 2011
Contractor: Nordecon AS
Project manager: Priit Viira

MAJOR PROJECTS AND PROFESSIONAL RECOGNITION

Major projects completed by Group entities in 2011*:

Project	Group entity	Customer	Operating segment
Construction of Tamme Stadium	Nordecon AS	Tartu city government	Public buildings
Construction of the Koidula border station complex	Nordecon AS	Riigi Kinnisvara AS	Public buildings
Design and build of the Ahtme peak and reserve load boiler plant	Nordecon AS	Kohtla-Järve Soojus AS	Industrial and warehouse facilities
Reconstruction of the seaplane hangars of Tallinn Seaplane Harbour into an exhibition building of the Estonian Maritime Museum	Nordecon AS	Estonian Maritime Museum	Public buildings
Repair of the E20 Liiapeksi-Loobu road section	Nordecon AS	Estonian Road Administration	Road construction
Reconstruction of level crossings on national basic road no 39	Nordecon AS	Estonian Road Administration	Road construction
Repair of the Kuressaare-Nasva section of national basic road no 77	Nordecon AS	Estonian Road Administration	Road construction
Repair of the Risti-Virtsu road (km 34.8 to km 40.3)	Nordecon AS	Estonian Road Administration	Road construction
Closure of the Rääma landfill site	Nordecon AS	OÜ Paikre	Environmental engineering
Construction of a bio-filter for the wastewater treatment plant of Tallinn	Nordecon AS	AS Tallinna Vesi	Environmental engineering
Water and wastewater networks for the Loo rural community	Nordecon AS	OÜ Loo Vesi	Other engineering
Water management project of Maardu town – construction of connecting pipelines and facilities for the Tallinna-Muuga network	Nordecon AS	Maardu Vesi AS	Other engineering
Õnne cattle building	Nordecon Betoon OÜ	Õnne Piimakarjatalu OÜ	Industrial and warehouse facilities
Peetri cattle building complex	Nordecon Betoon OÜ	Peetri Põld ja Piim AS	Industrial and warehouse facilities
Concrete works for the Töölõnlahden office building in Finland	Nordecon Betoon OÜ	Lemminkäinen Talo OY	Commercial buildings
Exhibition building for Pärnu Museum	AS Eston Ehitus	Pärnu Museum	Public buildings
Viljandi retirement and nursing home	AS Eston Ehitus	AS Hoolekandeteenused	Public buildings
Retirement and nursing centre in Pärnu	AS Eston Ehitus	Pärnu City Government	Public buildings
Repair of the Emmaste-Luidja section of national road no 84 (km 10.0 to km 14.794)	Hiiu Teed OÜ	Estonian Road Administration	Road construction
Design and build of Orjaku fishing harbour	Hiiu Teed OÜ/ Nordecon AS	Käina Rural Municipality Government	Environmental engineering
Construction of Jaama road in Püssi town	AS Järva Teed/ Nordecon AS	Estonian Road Administration	Road construction
Design and build of the Reopalu intersection	AS Järva Teed/ Nordecon AS	Estonian Road Administration	Road construction

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

PROFESSIONAL RECOGNITION OF THE GROUP AND OUR STAFF

Builder of the Year 2011

We are proud to report that the Estonian Association of Construction Entrepreneurs awarded the title of Builder of the Year 2011 to Nordecon AS's project manager Arvo Kirotus whose work on managing the construction of a bio-filter for the wastewater treatment plant of Tallinn was highly recognised by all parties: the customer, the architect, the designer and the construction supervisor. Final contenders for the Builder of the Year award included also our Peeter Voovere who managed the construction of the AHHA Science Centre and Martin Viilep who managed the construction of the Ahtme peak and reserve load boiler plant.

Concrete Structure of the Year 2011

The Estonian Concrete Association named acoustic sculpture Cromatico, built on Tallinn Song Festival Grounds by Nordecon Betoon OÜ in cooperation with the German acoustic artist Lukas Kühne and HC Betoon AS, Concrete Structure of the Year 2011. The project was exceptional in the sense that it was mainly a *pro bono* undertaking. The engineering award went to Andrei Kervališvili from Nordecon Betoon OÜ.

At the same competition, the bio-filter of the wastewater treatment plant of Tallinn, built by Nordecon AS, received the largest number of online votes. Projects nominated for the award included also the stands of Tamme Stadium in Tartu, built by Nordecon AS.

IFD Annual Award 2011

At its annual congress in October 2011, IFD (the International Federation for the Roofing Trade) awarded the roof of the AHHA Science Centre, built by Nordecon AS, the title of the best metal roof of the year. The roofing solution was designed by the architects Ain Padrik and Vilen Künnapu, the engineering solution was prepared by DMT Insenerid, and construction was managed by Peeter Voovere from Nordecon AS.

In the category of metal roofs, the competition was between 14 roofs nominated from seven countries across the world. Awards were also given in other categories – for the best pitched roof, the best flat roof and the best facade. Altogether, IFD evaluated 59 assets from ten countries.

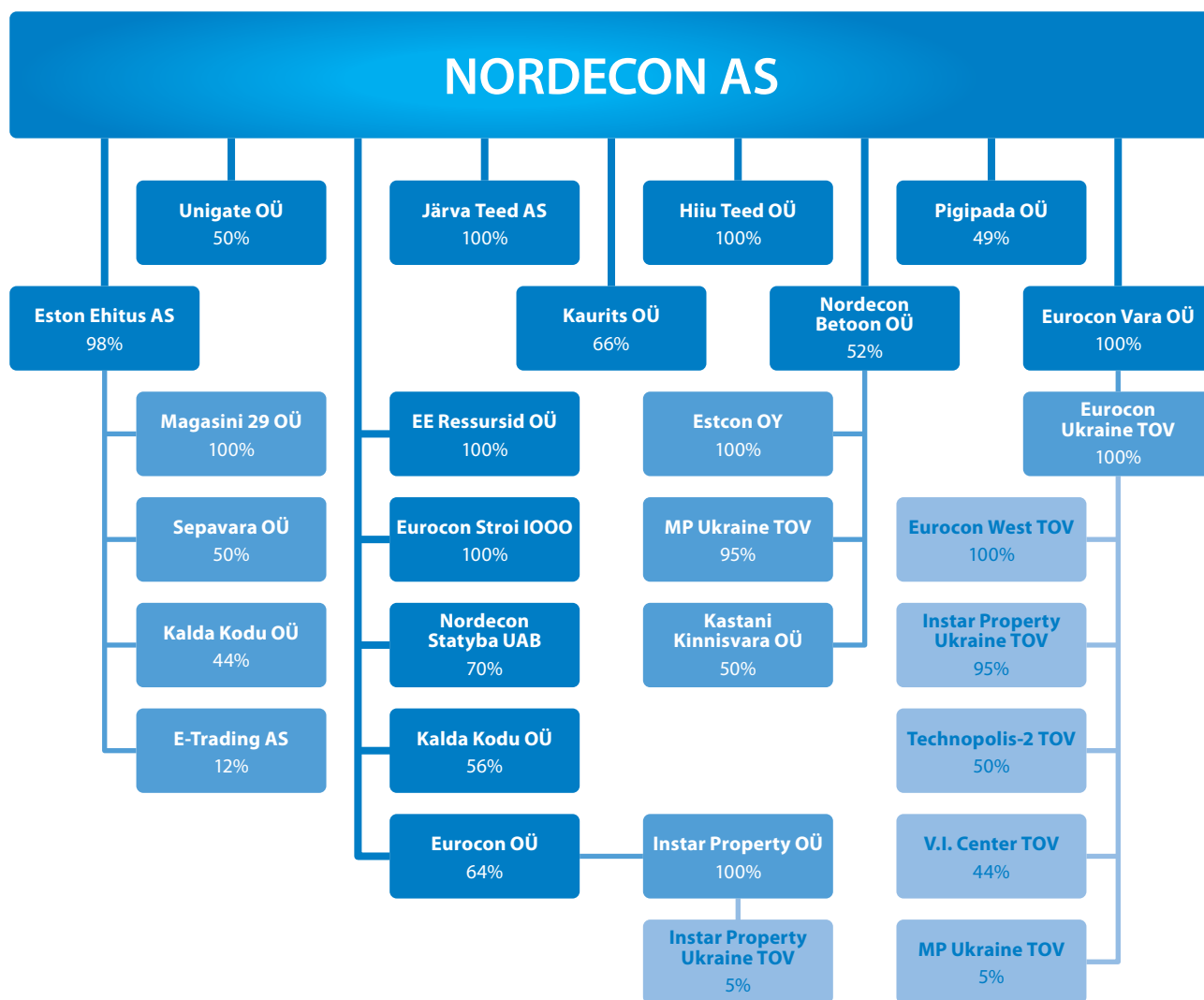


Repair of the E20 Tallinn – Narva highway Liiapeksi – Loobu road section

Location: Kuusalu rural municipality, Harjumaa and Kadrina rural municipality, Lääne-Viru county
 Customer: Estonian Road Administration
 Architect: Finnish Road Enterprise and Reaalprojekt OÜ
 Time: April 2010 – September 2011
 Contractor: Nordecon AS
 Project manager: Kristjan Toome

GROUP STRUCTURE

THE GROUP'S STRUCTURE AT 31 DECEMBER 2011, INCLUDING INTERESTS IN SUBSIDIARIES AND ASSOCIATES³



³ The chart does not include the subsidiaries OÜ Eesti Ehitus, OÜ Aspi, OÜ Linnaehitus, OÜ Mapri Projekt, 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 2011

Acquisition of an additional stake in Eurocon Ukraine TOV

In December 2011, the Group's subsidiaries Eurocon OÜ (Nordecon AS's interest: 64%) and Eurocon Vara OÜ (former name Rendieksperit OÜ, Nordecon AS's interest: 100%) conducted a transaction by which Eurocon OÜ sold its interest in the Ukrainian entity Eurocon Ukraine TOV (along with its interests in other entities) to Eurocon Vara OÜ. The transaction constituted intra-Group restructuring aimed at balancing Nordecon AS's Ukrainian risks and benefits. The transaction has no significant impact on Nordecon Group's future operations in Ukraine.

The Ukrainian competition authorities approved the transaction in January 2012.



Design and construction of the Pärnu Rääma landfill site

Location: Pärnu town, Pärnu county
Customer: OÜ Paikre
Architect: AS Kobras
Time: August 2009 – September 2011
Contractor: Nordecon AS and contract partner AS Napal
Project manager: Marek Sööt

FINANCIAL REVIEW

FINANCIAL PERFORMANCE

Nordecon Group ended 2011 with a gross profit of 194 thousand euros (2010: gross loss of 700 thousand euros). The annual gross profit figure was strongly influenced by the gross losses incurred in the first and second quarters, due respectively to seasonal factors and re-estimation of the outcomes of some loss-making contracts signed in 2009 and 2010. The third and fourth quarters ended with a gross profit.

The main factor that affected gross profit for 2011 was re-estimation of the outcomes of the Group's loss-generating projects, a step taken in the second quarter due to changes in the operating environment. Additional losses were recognised because of a rise in the prices of construction inputs and, partly, due to some unforeseen project performance costs. A major share of the additional loss was attributable to a few contracts secured in 2009 and 2010 for which losses had also been recognised earlier. The Group's estimates of losses expected to be incurred until delivery are based on its current best knowledge.

As regards loss-generating contracts, the strongest impact was exerted by the exhibition building of the Estonian Maritime Museum, built in the historical seaplane hangars near Tallinn Bay, which reached substantial completion and was delivered to the customer in 2011. It has been a unique renovation contract where the exceptionally poor condition of the building and the true complexity of the work were discovered only in the course of the project. As allowed by the contract, we asked the customer for an extension of the delivery term and additional compensation for costs incurred due to circumstances that could not be foreseen at the time of the public procurement tender, or due to additional work requested by the customer. However, by the date of release of this report, only part of such problems has found a contractual solution and many of our justified claims have still no cover.

Leaving aside the few loss-making projects secured during the downturn, the average profit margin of contracts concluded in 2011 improved compared with 2010. Above all, this was achieved thanks to the following efforts:

- In securing new contracts, we shifted priority from increasing or maintaining operating volumes to profitability. For this, we focused on raising the quality of budgeting and assessing the risks known in the bidding phase.
- We continued to enforce the austerity measures imposed in earlier periods.
- We enhanced our internal processes throughout the entire value chain of the construction service. The most important step was the merger of the Group's subsidiaries with the parent Nordecon AS at the beginning of the reporting period.

Recognition of profit depends on the stage of completion of contract activity. Therefore, the better margins of contracts secured in 2011 will have a gradual impact in subsequent periods, when the work is actually performed.

According to the Group's assessment, in 2011 competition in certain segments of the construction market (e.g. road construction and construction of water and wastewater networks) weakened considerably. This may be attributed to some construction companies going bankrupt or deciding to exit the market as well as the fact that in recent years all companies have had to reduce their personnel and support structures, which has undermined some players' bidding capabilities. In addition, many companies were held back by tougher financial conditions imposed by customers and the limited availability of guarantee facilities. To date most construction companies have become aware that long-term construction contracts entail the risk of growth in input prices. However, there is still no indication of a decrease in competitive pricing pressure in building construction, where the lack of private sector customers has rendered the market too small for all general contractors.

In general, this is exerting positive influence on the profitability of new contracts. Although the Group's margins do not yet meet the target, management believes that the Group is moving in the right direction for improving its gross margin in subsequent years.

Administrative expenses for 2011 totalled 4,641 thousand euros. Compared with 2010, administrative expenses have decreased by 5%, reaching relative stability in relation to current operating volumes. The ratio of administrative expenses to revenue was 3.1% (2010: 4.9%). We are pleased to report that our cost-saving measures yielded strong results and that the Group was able to maintain administrative expenses below the target ceiling, i.e. 5% of revenue.

The Group ended 2011 with an operating loss of 4,630 thousand euros (2010: operating loss of 8,975 thousand euros). The figure includes an impairment loss for goodwill of 425 thousand euros (see note 18). EBITDA was negative at 1,819 thousand euros (2010: negative at 5,375 thousand euros).

The Group's net loss was 4,708 thousand euros. The loss attributable to owners of the parent, Nordecon AS, was 5,304 thousand euros. The year 2010 ended in a net loss of 12,738 thousand euros, including non-recurring finance income and expenses on the sale of the Latvian subsidiary and expenses on the write-down of loans and receivables.

CASH FLOWS

In 2011, the Group's operating activities resulted in a net cash inflow of 8,523 thousand euros (2010: outflow of 3,733 thousand euros). Operating cash flow continued to be influenced by cyclical fluctuations in project-related cash flows (differences between the settlement terms agreed with customers and subcontractors) and some loss-making projects. However, positive cash flow was supported by factoring implemented to reduce the cyclical nature of cash flows and the proceeds (including advance payments) of new large contracts. The negative cash flow of unprofitable projects realises as the work is performed although their book loss has been recognised in earlier periods. At the end of the year, cash inflows increased because the amounts retained under some major contracts were released after delivery and, as usual, public sector entities wanted to make larger payments at the end of their budget year.

Investing activities generated a net inflow of 2,022 thousand euros (2010: inflow of 638 thousand euros) that consisted largely of repayments of loans granted, which totalled 1,745 thousand euros.

Financing activities resulted in a net cash outflow of 5,996 thousand euros (2010: outflow of 5,491 thousand euros). The structure of financing cash flows has remained more or less stable in the past couple of years. The Group is settling its loan obligations faster than it is raising new debt although repayments have started to decrease somewhat in relation to the comparative period because of agreements reached with the banks. We are pleased to state that the renegotiation of settlement terms has not caused any significant change in interest rates.

At 31 December 2011, the Group's cash and cash equivalents totalled 9,908 thousand euros (31 December 2010: 5,818 thousand euros). For information on liquidity risks, please refer to the chapter *Description of the main risks*.



Water management project of Maardu town – construction of connecting pipelines and facilities for the Tallinna – Muuga water and wastewater network

Location: Tallinn city, Maardu town, Jõelähtme rural municipality, Harju county
Customer: AS Maardu Vesi
Architect: SWECO Projekt AS
Time: September 2010 – September 2011
Contractor: Nordecon AS and contract partner Arco Ehitus OÜ
Project manager: Priit Murmann

INVESTMENT

Investment in companies

In the reporting period the Group did not make any major investments in non-Group entities. The continuing slump 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. In a falling and highly competitive market, many companies were forced to take relatively high risks in order to win contracts. As a result, any mergers or acquisitions would involve significant portfolio risk.

Minor equity investments of the year are described in the chapter *Group structure* as well as in notes 6 and 7 to the consolidated financial statements.

Investment in investment properties

In 2011 the Group did not purchase or sell any investment properties (properties held for resale, for earning rental income or for capital appreciation). In 2010 we sold two properties with a total book value of 693 thousand euros (see note 16). The transactions gave rise to a loss of 129 thousand euros.

Investment in property, plant and equipment and intangible assets

The Group did not make any major investments in property, plant and equipment. Acquisitions of property, plant and equipment totalled 823 thousand euros (2010: 552 thousand euros). The carrying value of property, plant and equipment decreased through ordinary depreciation (see note 17).

We did not make any major investments in intangible assets either. Goodwill was written down by 425 thousand euros (2010: 411 thousand euros) (see note 18).

CHANGES IN THE BOOK VALUES OF INVESTMENTS

Investment (EUR '000)	2011	2010
Investments in equity-accounted investees	100	-41
Investments in long-term financial assets	0	0
Investment property	0	-693
Property, plant and equipment	-1,601	-4,007
Intangible assets	-526	-1,658

Our operating volumes are increasing and authorities have imposed new requirements on road maintenance companies. Accordingly, our investment plan for 2012 is primarily aimed at modernising our fleet of machinery and equipment. In addition, for better performance of road construction contracts, we are going to invest in asphalt production technology.

KEY FINANCIAL FIGURES AND RATIOS

Figure/ratio	2011	2010	2009	2008	2007
Revenue (EUR'000)	147,802	99,312	154,594	247,205	239,798
Revenue growth/decrease	48.8%	-35.8%	-37.5%	3.1%	49.9%
Net profit/loss (EUR'000)	-4,708	-12,738	-5,717	10,949	18,520
Profit/loss attributable to owners of the parent (EUR'000)	-5,304	-11,811	-2,923	9,304	17,095
Weighted average number of shares	30,756,728	30,756,728	30,756,728	30,756,728	30,756,728
Earnings per share (EUR)	-0.17	-0.38	-0.09	0.30	0.56
Average number of employees	731	774	1,128	1,232	1,103
Revenue per employee (EUR'000)	202	128	137	201	217
Personnel expenses to revenue	9.6%	14.6%	15.0%	12.7%	12.3%
Administrative expenses to revenue	3.1%	4.9%	5.2%	4.7%	4.6%
EBITDA ⁴ (EUR'000)	-1,819	-5,376	275	17,969	23,684
EBITDA margin	-1.2%	-5.6%	0.2%	7.3%	9.9%
Gross margin	0.1%	-0.7%	5.6%	9.3%	13.3%
Operating margin	-3.1%	-9.0%	-5.2%	5.4%	8.2%
Operating margin excluding gains on asset sales	-3.5%	-9.4%	-5.4%	5.3%	7.8%
Net margin	-3.2%	-12.8%	-3.7%	4.4%	7.7%
Return on invested capital	-5.9%	-15.8%	-4.1%	19.1%	32.7%
Return on assets	-4.7%	-8.3%	-6.0%	9.1%	17.1%
Return on equity	-15.2%	-32.6%	-11.4%	20.5%	44.1%
Equity ratio	28.0%	35.1%	37.1%	36.5%	36.9%
Gearing	32.8%	42.3%	26.4%	18.2%	13.5%
Current ratio	1.14	1.39	1.47	1.33	1.30
As at 31 December	2011	2010	2009	2008	2007
Order book (EUR'000)	134,043	85,607	97,827	141,932	161,482

⁴ For the purpose of calculating EBITDA, non-cash items include not only depreciation and amortisation but also impairment losses on goodwill (2011: 425 thousand euros; 2010: 411 thousand euros).

- Revenue growth/decrease = (revenue for the reporting period / revenue for the previous period) - 1*100
- 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)*100
- Administrative expenses to revenue = (administrative expenses / revenue)*100
- EBITDA = operating profit + depreciation and amortisation + impairment losses on goodwill
- EBITDA margin = (EBITDA / revenue)*100
- Gross margin = (gross profit / revenue)*100
- Operating margin = (operating profit / revenue)*100
- 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)*100
- Net margin = (net profit for the period / revenue)*100
- Return on invested capital = ((profit before tax + interest expense) / the period's average (interest-bearing liabilities + equity))*100
- Return on assets = (operating profit / the period's average total assets)*100
- Return on equity = (net profit for the period / the period's average total equity)*100
- Equity ratio = (total equity / total liabilities and equity)*100
- Gearing = ((interest-bearing liabilities - cash and cash equivalents) / (interest-bearing liabilities + equity))*100
- Current ratio = total current assets / total current liabilities



Construction of Sillamäe pre-border truck parking area and service premises

Location: Sillamäe town, Ida-Viru county
Customer: Sillamäe Sadam AS
Time: October 2010 – August 2011
Contractor: Nordecon AS
Project manager: Arvo Kirotus

ORDER BOOK

At 31 December 2011, our order book stood at 134,043 thousand euros, being significantly larger than at 31 December 2010 when the figure was 85,607 thousand euros. Our order book has increased thanks to general growth in the construction market (see also the chapter *Performance by business line*) and successful bidding: similarly to revenue growth, the growth in our portfolio exceeded the market's average. The Group's order book includes some major contracts with significant individual value, such as the unexecuted portion of the design and build of the Aruvalla-Kose stretch of the E263 Tallinn-Tartu highway, whose total cost at the date of award was 39,262 thousand euros. The order book comprises the unexecuted portions of existing firm orders (signed contracts) only.

As at 31 December	2011	2010	2009	2008	2007
Order book (EUR'000)	134,043	85,607	97,827	141,932	161,482

At 80% the Infrastructure segment continues to account for a major proportion of the Group's total order book (31 December 2010: 74%).

In a situation where the decrease in input prices has been replaced by a rise in all areas of the construction sector, the Group's management continues to focus on improving the profitability of the contract portfolio.

Between the reporting date (31 December 2011) and the date of release of this report, Group companies have been awarded construction contracts of approximately 62,300 thousand euros. A year ago, contracts awarded between the reporting date and the date of release of the annual report totalled 65,000 thousand euros (including the contract on the design and build of the Aruvalla-Kose road section of 39,262 thousand euros).

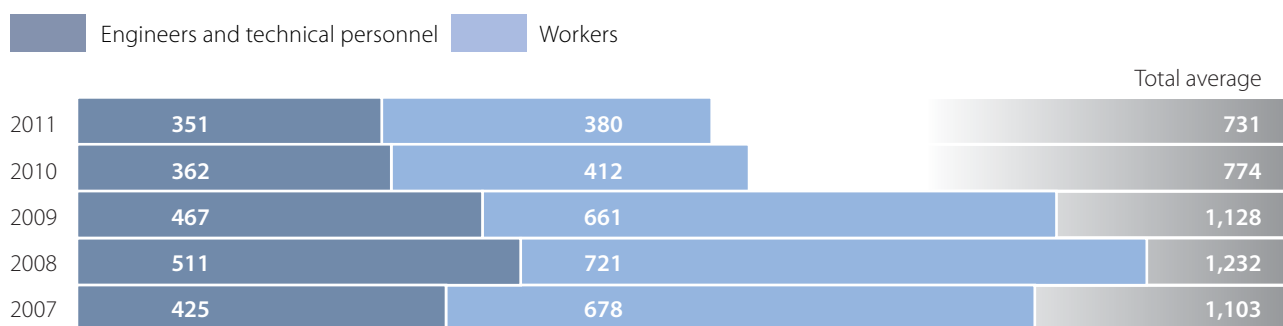
PEOPLE

We believe that Nordecon's most important assets are its people and that the value of the company depends on the professionalism, motivation and loyalty of our 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.

STAFF AND PERSONNEL EXPENSES

In 2011, the Group (including the parent and the subsidiaries) employed, on average, 731 people including 351 engineers and technical personnel (ETP). In the past year, downsizing decelerated notably. The main changes in headcount resulted from seasonal fluctuations in the second and third quarters. Compared with 2010, the number of employees decreased primarily at the parent company, which had merged with two subsidiaries at the end of 2010 (see the chapter *Organisation of the Group's Estonian and foreign operations in 2011*). The reorganization that followed allowed streamlining both the support and operating functions.

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



The Group's team is dynamic. The average age of Group entities' management personnel is slightly above 40 and that of ETP 36. 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 2011 including all associated taxes totalled 14,225 thousand euros, remaining similar to the 14,494 thousand euros incurred in 2010.

The remuneration of the members of the council of Nordecon AS, including associated social security charges, amounted to 92 thousand euros. The corresponding figure for 2010 was also 92 thousand euros. The remuneration of the members of the board of Nordecon AS, including social security charges, totalled 316 thousand euros compared with 199 thousand euros for 2010. The remuneration provided to the board has increased because in the comparative period the board had two members while in 2011 the number was four. The composition of the board changed in connection with the merger of two subsidiaries and the Group's parent at the end of 2010.

Employee training and qualifications

Similarly to previous years, our training activities were aimed at offering further professional training and helping the staff to improve their professional qualifications. Our engineers and technical personnel include around 80 people that have been awarded Civil Engineer IV, Diploma Civil Engineer V or some other certified qualification. In 2011, 25 people acquired or improved their professional qualifications. We support gathering of personal references and encourage project managers and teams to implement new and innovative technical solutions, which allow managing increasingly larger and more sophisticated projects. A lot of attention is also paid to developing teamwork and intra-Group knowledge sharing.

The Group hires new specialists mostly from Tallinn University of Technology, Tallinn College of Engineering and the Estonian University of Life Sciences. In 2011, our engineers and technical personnel included 43 students, over two thirds of them working for a master's degree and two for a PhD. Altogether, 76% of our engineers and technical personnel either have or are obtaining university-level education. 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 2011 we provided industry training to more than 40 young people. Participants of the trainee programme included students from Tallinn University of Technology, Tallinn College of Engineering and Järva County Vocational Training Centre.

Other human resource activities

Nordecon's employees value sport – people from across the Group participate in SEB bank's running events *Maijooks* and *Sügisjooks* (May Run and Autumn Run). Several times a year, we organise kayaking and canoeing trips for smaller groups of enthusiasts as well as orienteering games and other events in picturesque places all over Estonia. Our staff play basketball and football on a weekly basis and we arrange joint visits to the football stadium, to support the Estonian national team.

We have a long-standing tradition of analysing our past performance and making plans for the future in February, at our annual Winter Seminar. In recent years, this has been held at Otepää and Pühajärve. During the day-long event we discuss the previous year's activities and accomplishments and unveil future plans. There is always a guest speaker who talks on a subject of general interest. So far, we have had the pleasure of listening to Dr Urmas Varblane, Professor of International Business and Innovation at the University of Tartu; Raivo Küt, Director General of the Police and Border Guard Board; Jüri Raidla, Senior Partner at Law Office Raidla Lejins & Norcoux; and others.

CHARITABLE ACTIVITIES AND SOCIAL RESPONSIBILITY

Nordecon values education, culture and community engagement. Every year we support numerous charitable organisations, projects and undertakings. Despite the taxing economic environment, in 2011 we allocated a total of 180 thousand euros to selected charitable causes. The figure for 2010 was 196 thousand euros.

We continued our work in *Companies against HIV*, a project launched in 2007 in partnership with the Healthy Estonia Foundation and Swedbank, Statoil, TNS Emor and Hill & Knowlton with a view to increasing awareness about HIV and limiting the spread of the epidemic. On joining the project, Nordecon undertook to disseminate information about HIV within the Group and to support relevant community programmes, particularly those aimed at people of employable age. We will continue this work also in the future.

We support education by making donations to the Development Foundation of Tallinn University of Technology (scholarships for students working for their bachelor's and doctor's degrees) and Nõmme Private School Foundation.

Our companies are generous sponsors of sports. We have cooperation agreements with the Estonian Ski Association (for supporting youth sports), volleyball club Tartu Pere Leib and the basketball club of Tallinn University of Technology. In addition, the Group supports world discus champion and winner of the 2008 Beijing Olympics Gerd Kanter.

Under long-term partnership agreements, Nordecon supports Tallinn City Theatre, Tallinn University of Technology and various other cultural and social institutions and 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 at Tallinn University of Technology in order to provide future civil engineers with contemporary research and development opportunities.

We respect national defence and for years have contributed to the development of Estonian defence forces. Through a programme steered together with the National Defence Promotion Foundation, Nordecon supports recognition of the best officer and the best non-commissioned officer serving in the Estonian defence forces.



Construction of a bio-filter for the wastewater treatment plant of Tallinn

Location: Tallinn city
Customer: Tallinna Vesi AS
Architect: FCG Planeko OY and Civen OÜ
Time: August 2010 – August 2011
Contractor: Nordecon AS
Project manager: Arvo Kirotus

Awards:

Estonian Builder of the Year 2011 award given to project manager Arvo Kirotus.

Estonian Concrete Structure of the Year 2011 winner of special prize by online voting.

SHARE AND SHAREHOLDERS

SHARE INFORMATION

Name of security	Nordecon AS ordinary share	Indexes	OMX_Baltic_Benchmark_Cap_GI
Issuer	Nordecon AS		OMX_Baltic_Benchmark_Cap_PI
ISIN code	EE3100039496		OMX_Baltic_Benchmark_GI
Ticker symbol	NCN1T		OMX_Baltic_Benchmark_PI
Nominal value	No par value*		OMX_Baltic_GI
Total number of securities issued	30,756,728		OMX_Baltic_PI
Number of listed securities	30,756,728		OMX_Tallinn_GI
Listing date	18 May 2006		OMX_Baltic_Industrials_GI
Market	NASDAQ OMX Tallinn, Baltic Main List		OMX_Baltic_Industrials_PI
Industry	Construction and engineering		

*In connection with Estonia's accession to the euro-zone on 1 January 2011 and in line with amendments to the Estonian Commercial Code that took effect on 1 July 2010 as well as a resolution adopted by the annual general meeting of Nordecon AS in May 2011, the company's share capital was converted from 307,567,280 Estonian kroons to 19,657,131.9 euros. Concurrently with the conversion, the company adopted shares without par value. The share capital of Nordecon AS now consists of 30,756,728 ordinary registered shares with no par value.

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

SUMMARISED TRADING RESULTS

Share trading history

Price (EUR)	2011	2010	2009	2008	2007⁵
Open	1.38	1.62	1.05	4.89	5.33
High	1.50	2.60	1.87	4.89	7.18
Average	1.16	1.53	1.07	2.97	5.66
Low	0.88	1.05	0.55	0.95	4.41
Last closing price	0.90	1.40	1.58	1.02	4.90
Traded volume (number of securities traded)	4,161,002	8,237,449	9,627,956	6,447,283	7,284,775
Turnover, in EUR millions	5.08	12.70	12.03	20.05	54.01
Listed volume (31 Dec), in thousands	30,757	30,757	30,757	30,757	30,757
Market capitalisation (31 Dec), in EUR millions	27.68	43.03	48.60	31.37	150.71

⁵ In 2007 the number of shares issued in the IPO was doubled through a bonus issue. For comparability with subsequent periods, the share prices for 2007 have been adjusted.

PRICE EARNINGS (P/E) AND PRICE TO BOOK (P/B) RATIOS

Ratio	2011	2010	2009	2008	2007⁷
P/E (market price per share / earnings per share)	— ⁶	— ⁶	— ⁶	3.4	8.8
P/B (market price per share / book value per share)	1.1	1.3	1.1	0.6	3.3

⁶ The P/E ratio is not calculated when earnings per share are negative.

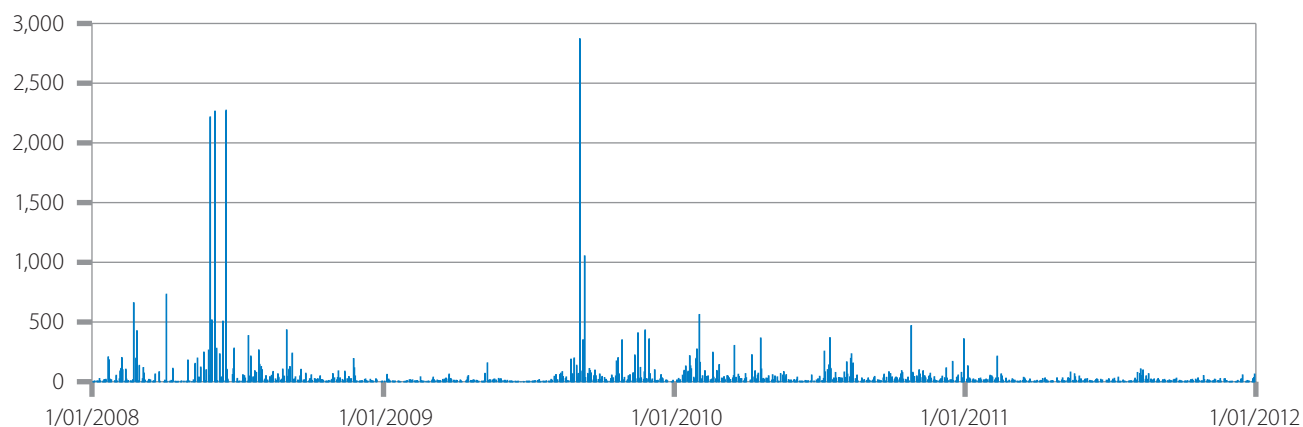
⁷ In 2007 the number of shares issued in the IPO was doubled through a bonus issue. For comparability with subsequent periods, the figures for 2007 have been adjusted.

MOVEMENTS IN THE PRICE AND TURNOVER OF THE NORDECON AS SHARE IN 2008-2011

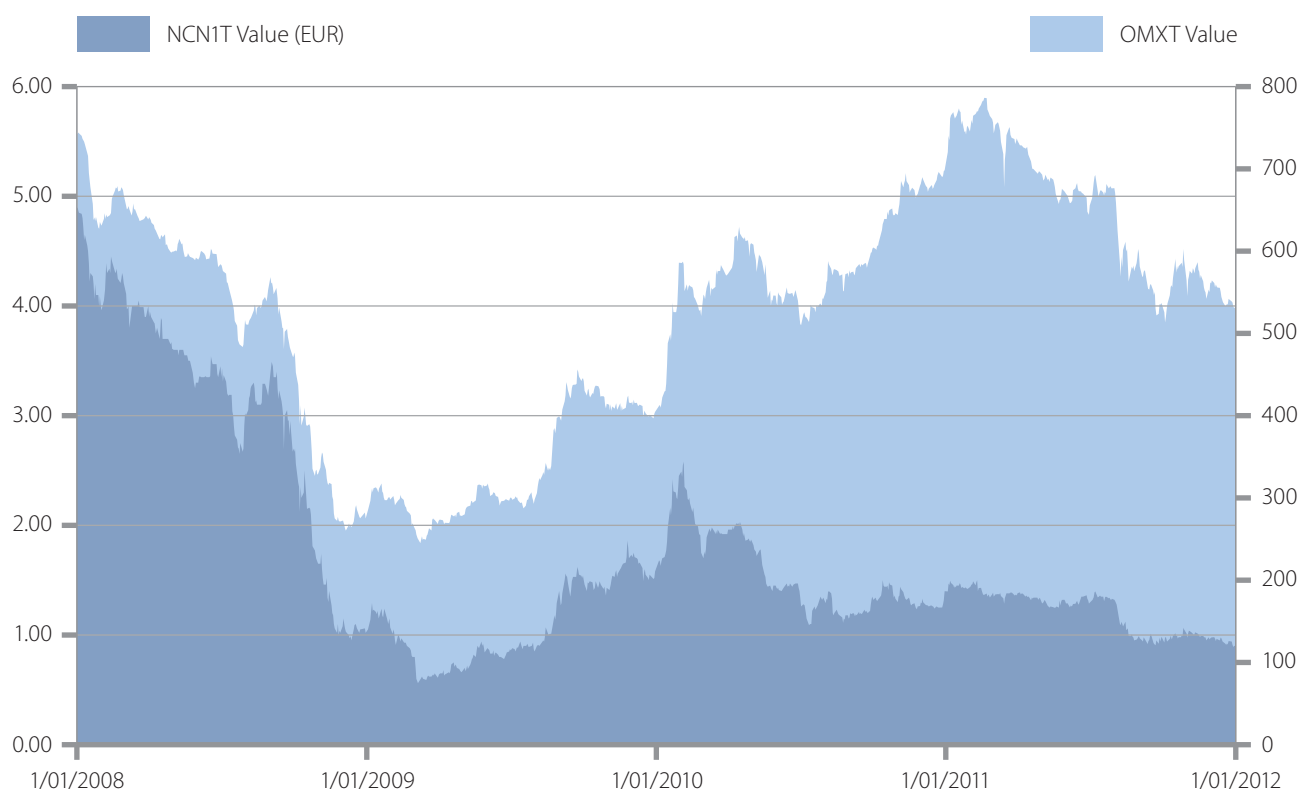
Movements in share price in euros



Daily turnover in thousands of euros



MOVEMENT OF THE SHARE PRICE COMPARED WITH THE OMX TALLINN MAIN INDEX IN 2008-2011



Index/equity	1 Jan 2008	31 Dec 2011	+/- %
OMX Tallinn	742.45	531.17	-28.46
NCN1T	EUR 4.90	EUR 0.90	-81.63



Reconstruction of Tamme Stadium building and artificial turf pitch

Location: Tamme 1, Tartu city
 Customer: Tartu City Council
 Architect: architectural part – Arhitektuurstuudio Siim & Kreis OÜ; structural engineering part – AS Randväli & Karema
 Time: October 2009 – March 2011
 Contractor: Nordecon AS
 Project manager: Andras Kelt

Awards:




Tartu City Certificate of Honour: *Best Building of the Year 2011 – best new building in the category of other buildings.*
 Estonian Concrete Structure of the Year 2011 nominee.

SHAREHOLDER STRUCTURE





LARGEST SHAREHOLDERS OF NORDECON AS AT 31 DECEMBER 2011

Shareholder	Number of shares	Ownership interest (%)
AS Nordic Contractors	16,507,464	53.67
Skandinaviska Enskilda Banken Ab clients	2,615,614	8.50
ING Luxembourg S.A.	1,111,853	3.61
State Street Bank and Trust Omnibus Account A Fund	647,964	2.11
Ain Tromp	578,960	1.88
SEB Pank AS clients	540,830	1.76
ASM Investments OÜ	519,600	1.69
Martin Sööt	292,473	0.95
Aivo Kont	291,005	0.95
SEB Elu- ja pensionikindlustus AS	262,700	0.85










SHAREHOLDER STRUCTURE OF NORDECON AS BY OWNERSHIP INTEREST AT 31 DECEMBER 2011

		Number of shareholders
	62.18%	Shareholders with interest exceeding 5% 2
	11.05%	Shareholders with interest between 1% and 5% 5
	26.77%	Shareholders with interest below 1% 2,176
		2,183

SHAREHOLDER STRUCTURE OF NORDECON AS BY ACTIVITY AND LEGAL STATUS AT 31 DECEMBER 2011

		Number of shares
	62.59%	Companies (legal persons) 19,250,412
	21.94%	Financial institutions (banks, investment funds) 6,748,142
	14.39%	Individuals 4,426,274
	1.08%	Insurance companies 331,900
		30 756 728

SHAREHOLDER STRUCTURE OF NORDECON AS BY SHAREHOLDER DOMICILE AT 31 DECEMBER 2011

		Number of shares
	79.01%	Estonia 24,300,838
	10.03%	Sweden 3,085,186
	3.82%	Luxembourg 1,174,163
	3.15%	USA 967,593
	1.05%	Lithuania 322,683
	0.88%	Great Britain 271,352
	0.39%	Finland 120,290
	0.53%	Latvia 162,479
	1.14%	Other countries 352,144
		30,756,728

SHARES CONTROLLED BY MEMBERS OF THE COUNCIL OF NORDECON AS AT 31 DECEMBER 2011

Council member		Number of shares	Ownership interest (%)
Toomas Luman (AS Nordic Contractors, OÜ Luman ja Pojad) ⁸	Chairman of the Council	16,574,144	53.89
Ain Tromp	Member of the Council	578,960	1.88
Alar Kroodo (ASM Investments OÜ) ⁸	Member of the Council	519,600	1.69
Andri Hõbemägi	Member of the Council	50,000	0.16
Tiina Möis	Member of the Council	0	0.00
Meelis Milder	Member of the Council	0	0.00

⁸ Companies controlled by the individual

Changes in council members' share positions during the reporting period:

Toomas Luman: + 5,000 shares

Andri Hõbemägi: + 10,000 shares

SHARES CONTROLLED BY MEMBERS OF THE BOARD OF NORDECON AS AT 31 DECEMBER 2011

Board		Number of shares	Ownership interest (%)
Jaano Vink	Chairman of the Board	37,921	0.12
Avo Ambur	Member of the Board	32,322	0.11
Marko Raudsik	Member of the Board	0	0.00
Erkki Suurorg	Member of the Board	0	0.00

Changes in board members' share positions during the reporting period:

Jaano Vink: + 3,921 shares

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 impose any restrictions on the transfer of the shares or the requirement to obtain the consent of the company or other shareholders for such transactions. The shares may be pledged. The board of Nordecon AS is not aware of any shareholder agreements that might restrict the transfer of the shares.



Design and construction of Koidula railway border station buildings

Location: Matsuri village, Värskä rural municipality, Põlva county
Customer: Riigi Kinnisvara AS
Architect: AS Amhold
Time: January 2011 – July 2011
Contractor: Nordecon AS
Project manager: Peeter Voovere

MEMBERS OF THE COUNCIL AND BOARD OF NORDECON AS

COUNCIL

The council has six members – two represent the controlling shareholder AS Nordic Contractors, one represents small shareholders and three 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) – representative of AS Nordic Contractors and a majority shareholder

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

An industrial and civil 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 the 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) and the badge of honour of the Estonian Chamber of Commerce and Industry (First 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).

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

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), Toidutark OÜ (board), Estonian Football Association, Pelgulinna Education Society, Nõmme Private Education Foundation.

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 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, Estonian Academy of Arts (board of governors).

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

Ain Tromp – independent member

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 later until 2009 chairman of the council of AS Aspi (later renamed Nordecon Infra AS). From 1997 to 2011 Ain Tromp was 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.



Reconstruction of Horizon Pulp&Paper cooking plant

Location: Kehra town, Harju county
Customer: "Horizon" Tselluloosi ja Paberi AS
Architect: EMP A&I OÜ
Time: March 2011 – December 2011
Contractor: Nordecon AS
Project manager: Kaspar Kasemaa

BOARD

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

Changes on the board of Nordecon AS in 2011

In connection with the merger of Nordecon AS and its subsidiaries Nordecon Infra AS and Nordecon Ehitus AS (see the chapter *Organisation of the Group's Estonian and foreign operations in 2011*), the council appointed to the board of the merged entity new members who took office in January 2011. Jaano Vink continued as chairman of the board. In addition, the council appointed to the board 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 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 overall management of the parent company 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 project manager. He graduated from Tallinn University of Technology, department of Industrial and Civil Engineering, 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's sales and pre-construction operations.

Membership in the governing bodies of other organisations: subsidiaries of Nordecon AS (board, until November 2011).

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 division of Nordecon AS.

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

Year of payout	Total dividends paid EUR '000	Number of shares, in thousands	Dividend per share EUR	Dividend payout ratio ⁹
2006	1,917	3,482	0.55	34.6%
2007	2,949	15,378	0.19	26.1%
2008	5,897	30,757	0.19	34.5%
2009	1,966	30,757	0.06	21.1%
2010	0	30,757	0	0%
2011	0	30,757	0	0%

⁹ Formula: dividends paid/profit for the period attributable to owners of the parent from which the dividends were distributed.

The board proposes that no dividends be distributed for 2011 as the 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.



Construction of the Paide student home and canteen of Järvamaa Vocational Education Centre

Location: Tallinna 46, Paide, Järva county
Customer: Järvamaa Vocational Education Centre
Architect: AS Amhold
Time: March 2011 – January 2012
Contractor: Nordecon AS
Project manager: Ain Koldits

DESCRIPTION OF THE MAIN RISKS AND CHANGES IN THE GROUP'S RISK MANAGEMENT

BUSINESS RISKS

The principal factors, which affect the Group's business volumes and profit margins, are competition in the construction market and changes in the demand for construction services. In addition, in the region, where the Group operates, construction operations are influenced by seasonality caused by the change of seasons.

The Group acknowledges the risks inherent in the execution of contracts concluded in an environment of stiff competition. Securing a long-term construction contract at an unreasonably low price in a situation where input prices are rising involves as high risk because the contract may quickly start generating a loss.

During the next years, the Estonian construction market will be heavily dependent on public sector investments, which consist largely of the support allocated from the EU structural funds. The availability of this support is relatively certain until 2013 (inclusive) when the current budget period ends. At present, we do not have detailed information on the structure of the budget for 2014-2020, but it is clear that the investments included in it will have a direct and significant impact on the business volumes of companies operating in the construction market.

The impacts of seasonality are the strongest in the infrastructure segment where a lot of work is done outdoors (road and port construction, surface works, etc). In order to disperse the risks, the Group has secured road maintenance contracts that generate year-round business. According to its business strategy, the Group counteracts seasonal fluctuations in its infrastructure operations with building construction operations that are less exposed to seasonality. Consequently, the Group endeavours to keep the operating volumes of the two segments in balance (see also the chapter *Performance by business line*). In addition, Group companies consistently seek new technical solutions that would yield greater efficiency under changeable weather conditions.

Institution of criminal proceedings against Nordecon AS and a member of its board

On 25 September 2008, the Estonian Road Administration published a notice of the public procurement of services for the design and build of the E263 Aruvalla-Kose road section. Nordecon AS (at that date the Group's subsidiary Nordecon Infra AS) and Ramboll Eesti AS submitted a joint bid of 32.4 million euros.

The procurement gave rise to numerous challenges in the period 2008-2010. Owing to the challenges, the Road Administration decided to cancel the procurement but the public procurement dispute review committee declared the Road Administration's resolution for cancellation invalid. The procurement process 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, declared the procurement process invalid on the basis that during the 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 circumstances surrounding the public procurement of services 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 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 to tender for public procurement contracts.

OPERATIONAL RISKS

To manage their daily construction risks, Group companies purchase contractors' all risks insurance. Depending on the nature of the project and the requests of the customer, both general frame agreements and special, project-specific contracts are used. In addition, as a rule, subcontractors are required to secure the performance of their obligations with a bank guarantee provided to a Group company. To remedy builder-caused deficiencies, which may be detected during the warranty period, Group companies create warranties provisions based on their historical experience. At 31 December 2011, the Group's warranties provisions (including current and non-current ones) totalled 1,192 thousand euros. At 31 December 2010, the corresponding figure was 1,329 thousand euros (see note 24).

In addition to managing the risks, which are directly related to construction operations, in recent years the Group has sought to mitigate also those operational risks that are inherent in preliminary activities. In particular, we have focused on the bidding process, i.e. the Group's compliance with the procurement terms and conditions and budgeting. Any errors made in the planning stage are generally irreversible and, in a situation where the price is contractually fixed, may result in a direct financial loss.

FINANCIAL RISKS

Financial risk management is described in more 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

Despite continued uncertainty, the Group did not have to recognise any significant credit losses. 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 is high. The main indicator of the realisation of credit risk is settlement default that exceeds 180 days coupled with no activity on the part of the debtor that would confirm the intent to settle.

In 2011 income from the recovery of receivables written down in previous periods exceeded expenses from write-down of receivables and the Group could recognise income of 8 thousand euros (see note 32). In 2010, expenses from the write-down of loans and receivables totalled 6,039 thousand euros.

Liquidity risk

The Group remains exposed to higher than average liquidity risk resulting from a mismatch between the long settlement terms demanded by customers (mostly 45 to 56 days) and increasingly shorter settlement terms negotiated by subcontractors (mostly 21 to 45 days). The Group counteracts the differences in settlement terms by using factoring where possible. In 2011, the liquidity position was further weakened by the completion of some loss-making projects and low operating margins.

The Group's liquidity is directly affected by changes in business volume. In 2011, the Group's sales volume grew by almost 50%. In order to raise additional working capital, the Group carried out negotiations with banks based on the Nordecon Group Business Plan and Financing Program 2011-2014, prepared by the parent Nordecon AS with the assistance of one of the world's leading consulting firms Roland Berger Strategy Consultants.

In line with the financing program, additional working capital was raised by partially suspending settlement of long-term loans during the years 2011 and 2012 (with the option to extend the repayment holiday for 2013). In addition, the Group was granted short-term credit lines of up to 5,300 thousand euros of which 1,660 thousand euros was in use at the reporting date (see note 19).

At 31 December 2011, the Group's current assets exceeded its current liabilities 1.14-fold (31 December 2010: 1.39-fold). Bank loans make up a significant proportion of current liabilities. In accordance with IFRS EU, loan commitments have to be classified into current and non-current liabilities based on the (contractual) conditions effective at the reporting date. Although management believes that it is likely that the Group's overdraft liabilities and other short-term bank loans will be refinanced for another 12 months, relevant decisions will be made in 2012. Therefore, at the reporting date the loan commitments constituted short-term liabilities. According to the Group's estimates, current liabilities include loans of 10,711 thousand euros that will probably be refinanced in 2012. If the current ratio were adjusted accordingly, it would be 1.38.

At the reporting date, the Group's cash and cash equivalents totalled 9,908 thousand euros (31 December 2010: 5,818 thousand euros) (see note 8).

Interest rate risk

The Group's interest-bearing liabilities to banks have both fixed and floating interest rates. Finance lease liabilities have mainly floating interest rates. The base rate for floating interest rates is mostly Euribor. At 31 December 2011, the Group's interest-bearing loans and borrowings totalled 28,643 thousand euros, a decrease of 5,965 thousand euros year-over-year. Interest expense for 2011 amounted to 993 thousand euros. Compared with 2010, interest expense has decreased by 62 thousand euros. The Group's interest rate risk is currently influenced by two factors: a rise in the base rate for floating interest rates (Euribor) and a low interest coverage ratio caused by weak operating cash flow. The first risk factor is mitigated by fixing, where possible, the interest rates of liabilities during the period of low market interest rates. Realisation of the second risk factor depends on the success of operating activities.

In 2011 the Group's exposure to interest rate risk increased on account of loans and leases whose fixed interest rates were replaced by floating ones in connection with refinancing. The proportion of interest-bearing liabilities that have a floating interest rate is currently in the region of 75%. However, the weighted average interest rate of the Group's interest-bearing liabilities has not changed significantly. At the reporting date, it was 3.91% (2010: 3.48%). In recent years, banks and leasing companies have been increasingly interested in charging a floating interest rate. This increases the Group's exposure to additional finance costs that may result from a rise in the base interest rate. Meanwhile, the Group's loan liabilities have decreased and the trend will continue in subsequent years. This curbs the potential negative impact of a rise in the base interest rate on the Group's interest-related 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, the prices of construction contracts and subcontracts are fixed in the currency of the host country, i.e. in euros (EUR), in Ukrainian hryvnas (UAH) or in Belarusian rubles (BYR). In 2011, the Group's currency risk exposures resulted mainly from movements in the exchange rates of the Ukrainian and Belarusian currencies against the euro. On the other hand, the impact of currency risk exposures was weakened by the fact that in 2011 Ukrainian and Belarusian revenues accounted for less than 5% of the Group's total revenue.

The exchange rate of the Ukrainian hryvna against the euro has been stable since 2010. In 2011, fluctuations in the euro-hryvna exchange rate remained below 5%.

The Belarusian ruble was repeatedly devalued in 2011. Between the beginning and end of the reporting year, the ruble depreciated against the euro roughly 2.7 times. The depreciation of the ruble did not cause any significant losses for the Group because according to the construction contract, a significant part of settlements for work performed was linked to the euro.

In connection with the negligible scope of operations in Lithuania, currency risks related to that country are not relevant. Since Estonia's adoption of the euro at the beginning of 2011, the Group's Finnish operations do not involve a currency risk. Currency risk is also reduced by the fact that the prices of materials and services that the Group's Estonian entities purchase from abroad are mostly denominated in euros.

The Group is going to discontinue its operations in Belarus in 2012. At the reporting date, construction operations were substantially completed. According to management's assessment, the Group's Ukrainian operations will not grow significantly in 2012 and, accordingly, associated currency risk will remain low. The Group has not acquired any derivatives to hedge its currency risks.



Reconstruction of Pärnu Museum exhibition building

Location: Aida 3, Pärnu town, Pärnu county
Customer: Pärnu Museum
Architect: architectural part – OÜ Sadakond; structural engineering part – AS Pärnu EKE Projekt
Time: May 2010 – September 2011
Contractor: Eston Ehitus AS and Nordecon AS as joint partners
Project manager: Urmas Veskimeister

OUTLOOKS OF THE GROUP'S GEOGRAPHICAL MARKETS

ESTONIA

Processes and developments characterising the Estonian construction market in 2012

- According to our estimates, the construction market will not grow significantly in 2012. Infrastructure contracts will dominate but opportunities for certain market growth will be better in building construction where recovery has been slower, assuming that private sector customers (including foreign investors) that abandoned the market in previous years will return. In new housing development, the success of a project will depend on the developer's ability to either offer a low cost or exploit a new niche. Consumer behaviour will remain highly volatile while banks will impose more stringent financing conditions.
- Total demand in the construction market will remain disproportionately reliant on public procurement contracts and projects executed with the support of the EU structural funds. The success of such projects is directly related to the administrative and procurement capabilities of the central and local government. Patchy procurement quality may cause hold-ups and disruptions both during the procurement proceedings and the construction process.
- Players will continue consolidating, particularly as regards general contractors in the segment of building construction, where competition is still overly aggressive. Bids made for contracts put out to tender in 2011 reflect that pricing pressure in the segment remains strong. In addition to competition, the number and business volumes of market participants will depend on their ability to participate in the bidding process and meet tendering requirements. In the execution phase, the decisive factors will be financial management (including relations with banks) and the ability to ensure sufficient liquidity, particularly when loss-generating contracts need to be performed.
- Companies may continue to challenge the results of poorly prepared public procurements but mostly on account of fundamental, not technical issues. Some procurements will be cancelled because customers have prepared their budgets based on the construction prices of 2009-2010 but in the current situation these are no longer realistic and construction companies' bids exceed them by tens of percents. The time and finance costs of the proceedings will be high for all involved.
- The contracts signed with public sector customers will impose rigorous conditions on construction companies, including greater obligations for the builder, strict sanctions, different financial guarantees, long settlement terms, etc. In a situation where the public procurement process is based on underbidding, this increases the risks of all market players.
- Growth in input prices will decelerate compared with the previous year, remaining within the range of a few percent (on a quarterly basis) throughout 2012. On the other hand, there are areas where price fluctuations are unpredictable and may be notably greater and hard or even impossible to influence (petroleum and metal products and some other materials).
- The situation in the labour market has somewhat stabilised and labour 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. On the whole, in 2012 the base wage paid by construction companies that have to maintain tight cost control is not expected to increase.
- In 2012 the construction market will be seriously and somewhat unpredictably impacted by massive funds raised from the sale of carbon dioxide emission quotas, which will be allocated within an extremely short period for improving the energy efficiency of buildings. This has already triggered demand hikes in some specialised segments of the construction market (joint filling, facade and roof works, installation of heating systems, etc) and unreasonable rises in respective prices, which will cause temporary problems for the entire sector.
- The volume of investments made in the construction sector will depend on the economic growth rate and forecasts made on the basis of the latter. According to economic statistics on 2011, in recent years all parties - companies, investors and banks have made decisions that have reduced private sector investments. In 2012 the volume of investments will not increase significantly, because in line with the current outlook economic growth has started to slow after a swift recovery that followed the slump of 2010 and consumer confidence remains low. The sovereign debt crisis in Europe has not been resolved either. On the other hand, investment may grow more vigorously in certain sub-segments of building and infrastructure construction.

LATVIA AND LITHUANIA

According to the Group's assessment, the Latvian construction market will continue adjusting to the post-recession environment also in 2012. We do not exclude the possibility that in the next few years we will undertake some projects in Latvia through our Estonian entities, involving partners where necessary. Execution of project-based business assumes that the projects can be performed profitably. The decision does not change the Group's strategic objectives in Latvia, i.e. the objective of operating in the Latvian construction market through local subsidiaries.

For the time being, we have suspended the operations of our Lithuanian subsidiary, Nordecon Statyba UAB. We are monitoring market developments and do not rule out the possibility that in the next few years the Group will resume its Lithuanian operations on a project basis. Temporary suspension of operations does not cause any major costs for the Group and it does not change our strategic objectives in Lithuania, i.e. the objective of operating in the Lithuanian construction market through local subsidiaries.

UKRAINE

The Group operates in Ukraine as a general contractor and project manager in the segment of commercial buildings and production facilities, offering its services primarily to foreign private sector customers. In the past three years, there were practically no private sector customers in that segment. We do not expect the situation to improve significantly in 2012. Maintaining minimal readiness at the current cost base, the Group has decided to continue its business in Ukraine. We review the sustainability of our Ukrainian operations on a regular basis and are prepared to restructure them significantly, if necessary.

The main risks in the Ukrainian market stem from the low administrative efficiency of the central and local government and the judicial system. Ukraine's recovery from the economic crisis of 2008-2009 and changes in the political landscape have had little positive effect on the construction sector. Demand is mainly undermined by private sector customers' inability to raise financing for commencing construction. The political situation has not stabilised at the expected pace and private sector customers have not started investing in projects where the Group would have a competitive advantage.

Still, the construction market of a country with a population of around 46 million has strong business potential.

FINLAND

In the Finnish market the Group offers subcontracting services in the field of concrete works. This is an area where Estonian companies still have an edge over local entities because our total personnel expenses are lower. The Finnish concrete works (sub)contracting market allows us to compete for selected projects (the main criteria are the location and the customer's low risk level). We expect demand for concrete works to remain stable in 2012. Nevertheless, we will maintain a rational approach and will avoid taking excessive risks in Finland. We are not planning to penetrate other segments of the Finnish construction market (general contracting, project management, etc).



Construction of Viljandi retirement home

Location: Viiratsi rural community, Viljandi county
Customer: SA Viljandimaa Hoolekandekeskus
Architect: OÜ Formica Projekt
Time: August 2010 – November 2011
Contractor: Eston Ehitus AS
Project manager: Andres Salusaar

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 2011 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 2011, Nordecon AS observed the CGR except where indicated otherwise in this report.

GENERAL MEETING

EXERCISE OF SHAREHOLDER RIGHTS

The general meeting is the highest governing body of Nordecon AS. General meetings are annual and extraordinary. The powers of the general meeting are 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 business days 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 that are included in the announcement of the general meeting. The company replies to all relevant questions before the general meeting on its website or during the meeting when the respective agenda item is discussed. In 2011 shareholders did not ask any questions about the agenda items before the general meeting. All questions and answers are available on the website until the information on the next general meeting is published.

In 2011 the company was represented at the general meeting by chairman of the board Jaano Vink who attended the meeting and was available to the shareholders during the meeting.

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

In 2011 Nordecon AS complied with the subsections of section 1.1 of CGR that relate to shareholder rights.

CALLING OF A GENERAL MEETING AND INFORMATION TO BE PUBLISHED

The annual general meeting of Nordecon AS took place on 12 May 2011. The meeting was held in the conference centre of Radisson Blu Hotel in Tallinn and it started at 4.30 pm. The meeting was called by the board. There were no extraordinary general meetings in the reporting period.

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

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

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

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

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

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

In 2011 Nordecon AS complied with the subsections of section 1.2 of CGR that relate to calling a general meeting and information to be published.

CONDUCT OF A GENERAL MEETING

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

A general meeting is attended by all members of the board, the chairman of the council and, where possible, members of the council and at least one of the auditors. In 2011, the general meeting was attended by the chairman of the board Jaano Vink, the chairman of the council Toomas Luman, members of the council Alar Kroodo and Andri Hõbemägi and authorised public accountant Andres Root. A general meeting is also attended by a candidate for a member of the council if the candidate has not been a member of the council before and the auditor candidate.

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

In 2011 Nordecon AS complied with the subsections of section 1.3 of CGR, except for 1.3.3. The company has not considered it practicable to make the annual general meeting available to observers and participants via the Internet.

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.



Construction of Hummuli Agro OÜ cattle building complex

Location: Piiri village, Hummuli rural community, Valga county
Customer: Hummuli Agro OÜ
Architect: Nordecon Betoon OÜ
Time: July 2010 – June 2011
Contractor: Nordecon Betoon OÜ
Project manager: Mihkel Noor

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

In 2011, 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.

In 2011 Nordecon AS complied with the subsections of section 2.1 of CGR that relate to responsibilities of the board.

COMPOSITION AND REMUNERATION OF THE BOARD

Composition of the board

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

The board or the council determines the area of responsibility of each member of the board, specifying the duties and powers of each member of the board in as much detail as possible, and outlines the basis 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.

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

In 2011, the board had the following members:

Name	Position/ Area of responsibility	Beginning of term of office	Expiry of term of office
Jaano Vink	Chairman of the Board General management of the company	5 August 2002	31 July 2014
Avo Ambur	Member of the Board Management of sales and pre-construction activities	1 January 2011	31 December 2013
Marko Raudsik	Member of the Board Management of the Buildings segment	1 January 2011	31 December 2013
Erkki Suurorg	Member of the Board Management of the Infrastructure segment	1 January 2011	31 December 2013

Remuneration of the board

The responsibilities of members of the board are set out in their service agreements. A member of the board is paid a monthly service fee, which is fixed in the service agreement. The council decides the remuneration of the members of the board based on an evaluation of their performance. The council evaluates a board member's performance by taking into account the board member's responsibilities and performance, the performance 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 observing the prohibition on competition. Under the service agreement, a member of the board may be eligible for the following additional monetary incentives:

- Performance pay for achieving the targets set for the financial year. The basis for performance pay is consolidated EBITDA (operating profit plus amortisation and depreciation expense) before the effect of the performance pay of members of the management board. Any EBITDA that exceeds the target EBITDA is linkable to a coefficient. Performance pay is calculated by multiplying the service fee with the coefficient. The coefficient does not allow assigning board members performance pay that exceeds the difference between the target EBITDA and actual EBITDA.

Board members will not be eligible for performance pay if the target for the year is not achieved and/or performance pay was assigned based on data that proved materially incorrect or inaccurate.

- Benefits for observing prohibition on competition after the expiry of the service agreement (for a member of the board 6-fold and for the chairman of the board 12-fold average monthly service fee together with performance pay).

Payment of benefits is justified because board members are subject to a broad-based prohibition on competition that restricts their activities during the period for which the benefits are paid.

- Termination benefits payable on the expiry of the service agreement (six-fold average monthly service fee together with performance pay).

A board member will not be eligible for termination benefits if the service agreement is terminated at the request of the board member, if the board member is removed due to breach of law or the service agreement, or if the board member's activities have caused direct damage to the company.

The company does not have long-term incentive programs for members of the board (pension programs) and has not issued share options to members of the board. Board members do not receive any significant non-monetary benefits. Nor is the remuneration of the board linked to changes in the company's share price.

In 2011 the remuneration of the members of the board of Nordecon AS including social security charges totalled 316 thousand euros (2010: 199 thousand euros).

In 2011 Nordecon AS complied with the subsections of section 2.2 of CGR, except for 2.2.7, that relate to membership and remuneration of the board. The company does not disclose the individual remuneration of each member of the board because in the current competitive situation this constitutes sensitive information.

CONFLICTS OF INTEREST

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

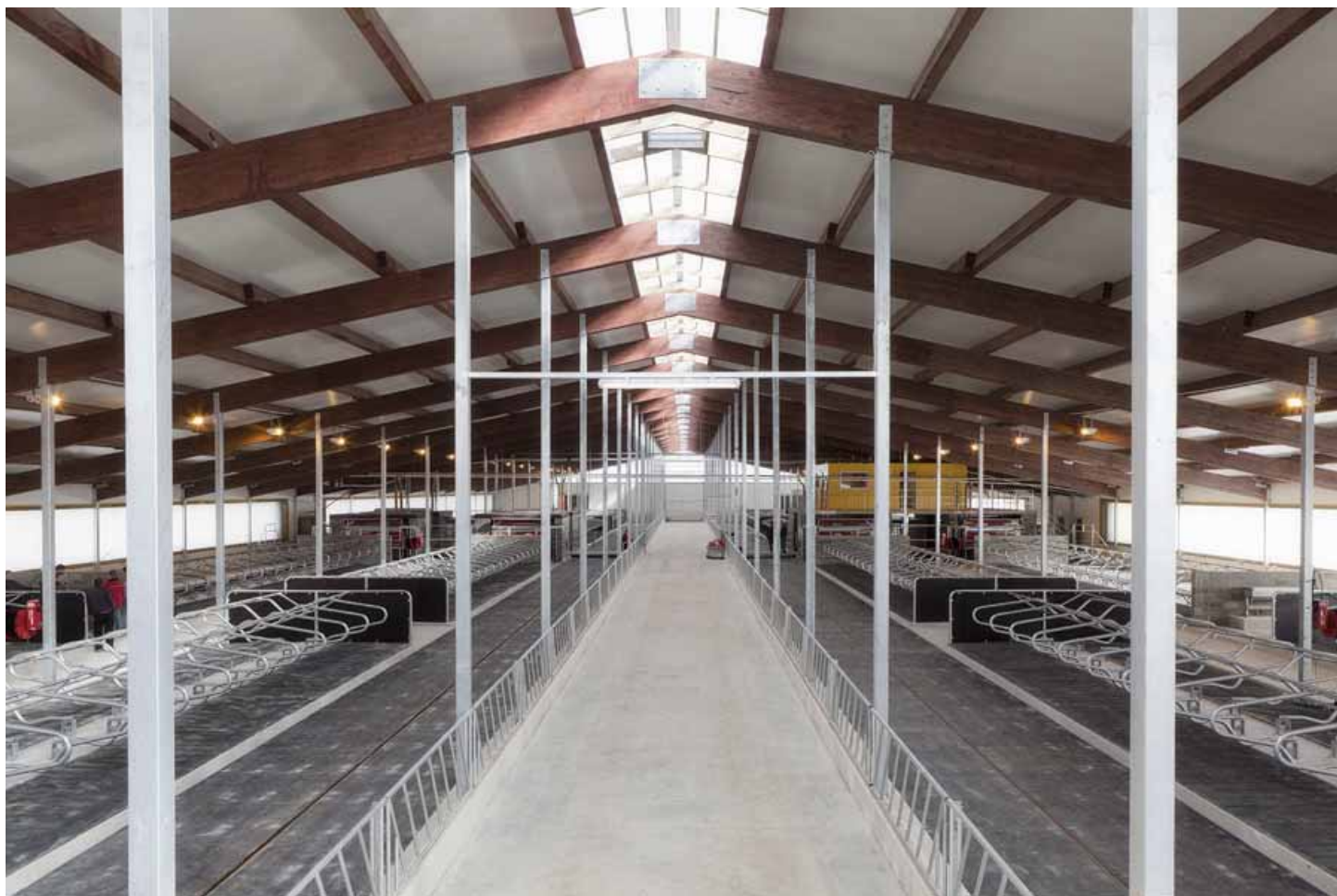
Members of the board may not compete with Nordecon AS without the prior consent of the company's council. In the reporting period members of the board did not ask the council's permission for engaging in competing activities and did not do it otherwise.

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, which concern the company's business. The council decides the performance of a transaction between the company and a member of the board, a board member's close family member or a person related to a board member, if the transaction is significant for the company, and determines the terms of such transactions.

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

A member of the board or an employee may not demand or take money or other benefits from a third party in connection with their work and may not provide unlawful or baseless benefits to a third party in the name of the company. During the reporting period neither the board nor, as far as the board knows, the employees infringed this principle.

In 2011 Nordecon AS complied with the subsections of section 2.3 of CGR that relate to conflicts of interest.



Construction of Peetri Põld ja Piim AS cattle building

Location: Peetri rural community, Kareda rural municipality, Järva county
Customer: Peetri Põld ja Piim AS
Architect: Nordecon Betoon OÜ
Time: May 2011 – September 2011
Contractor: Nordecon Betoon OÜ
Project manager: Reino Juhansoo

COUNCIL

RESPONSIBILITIES OF THE COUNCIL

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

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

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

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

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

The work of the council is organised by the chairman. The chairman of the council determines the agenda of council meetings, chairs council meetings, monitors the effectiveness of the work of the council, organises swift delivery of information to 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.

In 2011 Nordecon AS complied with the subsections of section 3.1 of CGR that relate to responsibilities of the council.

COMPOSITION AND REMUNERATION OF THE COUNCIL

A person may be elected as a member of the council if the person has the knowledge and experience required for participating in the work of the council. Matters that need to be considered on electing a member of the council include the nature of the activities of the council and the company, potential conflicts of interest and, where necessary, the age of the person. The 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 has three to seven members. The exact number is decided by the general meeting. Members of the council are elected by the general meeting for a term of five years. Members of the council elect a chairman from among themselves. In 2011, 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
Alar Kroodo	Vice-chairman of the Council, representative of small shareholders	9 January 2006	13 May 2015
Andri Hõbemägi	Member of the Council, representative of AS Nordic Contractors	14 May 2008	13 May 2013
Tiina Mõis	Member of the Council, independent	9 January 2006	13 May 2015
Meelis Milder	Member of the Council, independent	9 January 2006	13 May 2015
Ain Tromp	Member of the Council, independent	9 January 2006	13 May 2015

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

On 1 April 2006, the general meeting of Nordecon AS adopted a resolution on the remuneration of the council. A council member's service fee is 639 euros per month. The vice-chairman's service fee is 1,278 euros per month and the chairman's service fee is 1,917 euros per month. Council members are not eligible for any additional fees or termination benefits.

In 2011, the remuneration of the members of the council of Nordecon AS including relevant social security charges totalled 92 thousand euros. The corresponding figure for 2010 was also 92 thousand euros.

In 2011 Nordecon AS complied with the subsections of section 3.2 of CGR that relate to council members' responsibilities.

CONFLICTS OF INTEREST

Members of the council avoid conflicts of interest. In their activity as members of the council, they 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.

In 2011 there were no conflicts of interest in council members' work or relations with the company.

In 2011 Nordecon AS complied with the subsections of section 3.3 of CGR that relate to council members' responsibilities.

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 company's operation.

In 2011 the board and the council worked closely in monitoring completion of the company's development plan and achievement of the company's strategic objectives for 2010-2013. The board observes the council's strategic instructions and discusses strategic management issues with the council on a regular basis.

The responsibilities of the council and the board are outlined in the company's articles of association. If assignment of certain management responsibilities is not outlined in the articles of association, the provisions of the Estonian Commercial Code are observed.

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

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

In 2011 Nordecon AS complied with the subsections of sections 4.1 to 4.3 of CGR that relate to cooperation between the board and the council.



Design and construction of Männikuvälja cattle building, silage silo, slurry pump house and forecourts

Location: Maage farm, Kärasi village, Lohusuu rural municipality, Ida-Viru county
Customer: Mesiviss OÜ
Architect: Nordecon Betoon OÜ
Time: June 2011 – December 2011
Contractor: Nordecon Betoon OÜ
Project manager: Taavi Vesiaid

DISCLOSURE OF INFORMATION

DISCLOSURE OF INFORMATION ON THE COMPANY'S WEBSITE AND IN THE INFORMATION SYSTEM OF THE STOCK EXCHANGE

In disseminating information, Nordecon AS endeavours to treat all shareholders as equally and fairly as possible and to communicate all significant events without 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 at www.nordecon.com.

The company discloses information in accordance with the rules of the NASDAQ OMX Tallinn Stock Exchange and the provisions of the Estonian Securities Act. In 2011 the company's threshold for notifying of significant construction contracts was 3.2 million euros. In 2011 Nordecon AS made 22 stock exchange announcements that were released concurrently in Estonian and in English via the information system of the NASDAQ OMX Tallinn Stock Exchange.

Nordecon AS has disclosed on its website and via a separate announcement in the information system of the stock exchange its financial calendar, which outlines the dates on which information will be released during the year (including annual and interim reports and the notice of the annual general meeting). In addition, the company has made available on its website the information (specific reports and data) listed in section 5.3 of CGR.

MEETINGS WITH INVESTORS AND FINANCIAL ANALYSTS

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

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

In 2011 Nordecon AS complied with chapter 5 of CGR that relates to disclosure of information, except for the following section.

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

The company is convinced that by making the information available on its website and by being open and approachable in its shareholder relations it has provided adequate alternatives and conditions, which ensure equal availability of information to all shareholders. The company does not disseminate inside information at such meetings but uses financial information and presentations that have already been released.



Construction of Õnne Piimakarjatalu OÜ cattle building and slurry silos

Location: Esku village, Põltsamaa rural municipality, Jõgeva county
Customer: Õnne Piimakarjatalu OÜ
Architect: Nordecon Betoon OÜ
Time: April 2011 – September 2011
Contractor: Nordecon Betoon OÜ
Project manager: Mihkel Noor

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 as adopted by the European Union (IFRS EU). The financial statements are prepared and submitted for approval in conformity with the Estonian Accounting Act, the rules of the OMX Tallinn Stock Exchange, the Estonian Commercial Code and other applicable legislation.

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

In the reporting period 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 has disclosed 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 38).

In 2011 Nordecon AS complied with the subsections of section 6.1 of CGR, except for 6.1.1, that relate to financial reporting.

In 2011, the council did not deem it necessary to invite the auditor to the meeting that approved the annual report because the auditor had issued an unqualified independent auditor's report on the consolidated financial statements.

AUDITING

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

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

The auditor's responsibilities and fee and the timeframe of services provided are set out in the audit services agreement signed with the auditor. Under the agreement the auditor performs the audit in accordance with International Standards on Auditing (Estonia). The auditor can express an opinion on the company's activities without any constraints imposed by the company.

In the reporting period, the auditor's services comprised the agreed audit services as well as tax advice, tax training, translation services and work involving agreed-upon procedures. Altogether, the fees paid to the auditor for services provided in 2011 totalled 46 thousand euros.

In 2011 Nordecon AS complied with the subsections of section 6.2 of CGR, except for 6.2.6, that relate to auditing.

In 2011 the council did not deem it necessary to request a written overview of audit-related matters, as suggested in subsection 6.2.6 of CGR, because the auditor issued an unqualified independent auditor's report on the financial statements. The council will consider the need for requesting such an overview in the next financial year.

MANAGEMENT'S CONFIRMATION AND SIGNATURES

The board confirms that *Management's discussion and analysis* presents fairly the operations, development, financial performance and financial position of the Group consisting of the parent and all consolidated entities and contains a description of the main risks and uncertainties.

Jaano Vink

Chairman of the Board



30 April 2012

Avo Ambur

Member of the Board



30 April 2012

Marko Raudsik

Member of the Board



30 April 2012

Erkki Suurorg

Member of the Board



30 April 2012



Acoustic sculpture “Cromatico”

Erected as part of European Capital of Culture Tallinn 2011 programme

Idea: Lukas Kühne (sculptor) and Mikko Fritze

Realisation: Nordecon Betoön OÜ

Winner of *Concrete Structure of the Year 2011*

Constructor prize to Nordecon Betoön OÜ, *Concrete Structure of the Year 2011*

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

EUR '000

As at 31 December	Note	2011	2010
ASSETS			
Current assets			
Cash and cash equivalents	8	9,908	5,818
Trade and other receivables	9	34,645	31,266
Prepayments	10	2,610	1,060
Inventories	11	24,120	24,982
Non-current assets held for sale	12	242	321
Total current assets		71,525	63,447
Non-current assets			
Investments in equity-accounted investees	13	199	99
Other investments	15	26	26
Trade and other receivables	9	2,504	2,215
Investment property	16	4,930	4,930
Property, plant and equipment	17	7,437	9,038
Intangible assets	18	14,960	15,486
Total non-current assets		30,056	31,794
TOTAL ASSETS		101,581	95,241
LIABILITIES			
Current liabilities			
Loans and borrowings	19	19,130	19,231
Trade payables	21	27,403	17,429
Other payables	22	4,930	3,446
Deferred income	23	10,587	4,425
Provisions	24	485	1,160
Total current liabilities		62,535	45,691
Non-current liabilities			
Loans and borrowings	19	9,513	15,377
Trade payables	21	199	215
Other payables	22	96	96
Provisions	24	841	423
Total non-current liabilities		10,649	16,111
TOTAL LIABILITIES		73,184	61,802
EQUITY			
Share capital	25	19,657	19,657
Statutory capital reserve	25	2,554	2,558
Translation reserve	25	-463	-232
Retained earnings		4,563	10,257
Total equity attributable to equity holders of the parent		26,311	32,240
Non-controlling interest		2,086	1,199
TOTAL EQUITY		28,397	33,439
TOTAL LIABILITIES AND EQUITY		101,581	95,241

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

EUR '000	Note	2011	2010
Revenue	27	147,802	99,312
Cost of sales	30	-147,608	-100,012
Gross profit/loss		194	-700
Distribution expenses		-317	-401
Administrative expenses	31	-4,641	-4,887
Other operating income	32	806	820
Other operating expenses	32	-672	-3,807
Operating loss		-4,630	-8,975
Finance income	33	938	3,059
Finance expenses	33	-1,086	-6,338
Net finance expense		-148	-3,279
Share of profit/loss of equity-accounted investees	13	100	-517
Loss before income tax		-4,678	-12,771
Income tax expense/income	34	-30	33
Loss for the year		-4,708	-12,738
Other comprehensive income/expense:			
Exchange differences on translating foreign operations		-329	-28
Total other comprehensive expense for the year		-329	-28
TOTAL COMPREHENSIVE EXPENSE FOR THE YEAR		-5,037	-12,766
Profit/loss attributable to:			
– Owners of the parent	26	-5,304	-11,811
– Non-controlling interests		596	-927
Loss for the year		-4,708	-12,738
Total comprehensive income/expense attributable to:			
– Owners of the parent		-5,924	-11,839
– Non-controlling interests		887	-927
Total comprehensive expense for the year		-5,037	-12,766
Earnings per share attributable to owners of the parent:			
Basic earnings per share (EUR)	26	-0.17	-0.38
Diluted earnings per share (EUR)	26	-0.17	-0.38

CONSOLIDATED STATEMENT OF CASH FLOWS

EUR '000	Note	2011	2010
Cash flows from operating activities			
Cash receipts from customers ¹		185,147	120,719
Cash paid to suppliers ²		-160,805	-105,501
VAT paid		-2,384	-3,910
Cash paid to and for employees		-13,476	-14,953
Income tax received/paid		41	-88
Net cash from/used in operating activities		8,523	-3,733
Cash flows from investing activities			
Acquisition of property, plant and equipment		-58	-195
Proceeds from sale of property, plant and equipment and intangible assets		340	850
Proceeds from sale of investment properties		0	709
Acquisition of subsidiaries, net of cash acquired		0	1
Proceeds from disposal of subsidiaries, net of cash transferred		0	-615
Acquisition of associates		0	-2
Loans granted		-213	-549
Repayment of loans granted		1,745	177
Interest received		204	258
Dividends received		4	4
Net cash from investing activities		2,022	638
Cash flows from financing activities			
Proceeds from loans received		1,925	6,642
Repayment of loans received		-4,907	-8,617
Payment of finance lease liabilities	20	-1,921	-2,379
Interest paid		-1,089	-1,122
Other payments made		-4	-15
Net cash used in financing activities		-5,996	-5,491
Net cash inflow/outflow		4,549	-8,586
Cash and cash equivalents at beginning of year		5,818	14,392
Effect of exchange rate fluctuations		-459	12
Increase/decrease in cash and cash equivalents		4,549	-8,586
Cash and cash equivalents at end of year		9,908	5,818

¹ Line item *Cash receipts from customers* includes the VAT paid by customers.

² Line item *Cash paid to suppliers* includes the VAT paid to the state.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

EUR '000	Equity attributable to equity holders of the parent					Non-controlling interest	Total
	Share capital	Statutory capital reserve	Translation reserve	Retained earnings	Total		
Balance at 31 December 2009	19,657	2,557	-205	22,067	44,077	706	44,783
Loss for the year	0	0	0	-11,811	-11,811	-927	-12,738
Other comprehensive expense	0	0	-28	0	-28	0	-28
Increase of capital reserve	0	1	0	0	1	0	1
Changes in non-controlling interest	0	0	0	0	0	1,420	1,420
Effect of rounding	–	–	1	1	1	–	1
Balance at 31 December 2010	19,657	2,558	-232	10,257	32,240	1,199	33,439
Balance at 31 December 2010	19,657	2,558	-232	10,257	32,240	1,199	33,439
Loss for the year	0	0	0	-5,304	-5,304	596	-4,708
Other comprehensive expense	0	0	-231	0	-231	-98	-329
Reduction of capital reserve	0	-4	0	0	-4	0	-4
Changes in non-controlling interest	0	0	0	-389	-389	389	0
Effect of rounding	–	–	–	-1	-1	–	-1
Balance at 31 December 2011	19,657	2,554	-463	4,563	26,311	2,086	28,397

NOTE 1.

REPORTING ENTITY

Nordecon AS (the "Company") 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 consolidated financial statements of Nordecon AS (also referred to as the "parent") as at and for the year ended 31 December 2011 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 building and infrastructure construction and, within strategic limits, real estate development. In addition to Estonia, the Group operates through its subsidiaries and associates in Lithuania, Ukraine, Belarus and Finland. In the comparative period the Group operated also in Latvia (Latvian operations were discontinued in February 2010).

NOTE 2.

STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION

STATEMENT OF COMPLIANCE

The consolidated financial statements of Nordecon AS for the year ended 31 December 2011 have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS EU).

The accounting policies set out below have been applied consistently to all periods presented in the financial statements, except for those new standards and interpretations in note 3 that did not require retrospective recognition when applied.

Under the Estonian Commercial Code, 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 preparation of a new annual report.

The board authorised these consolidated financial statements for issue on 30 April 2012.

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 value are discussed further in notes 5 and 35.

FUNCTIONAL AND PRESENTATION CURRENCY

The functional currency of Group entities is the currency of the primary economic environment in which they operate: for the Estonian and Finnish entities – the euro (EUR), for the Lithuanian entities – the Lithuanian litas (LTL), for the Ukrainian entities – the Ukrainian hryvna (UAH) and for the Belarusian entities – the Belarusian ruble (BYR). The consolidated financial statements are presented in euros. The information in the primary financial statements and the notes is presented in thousands of euros, rounded to the nearest thousand unless indicated otherwise.

The euro became the Group's presentation currency as from 1 January 2011 when Estonia joined the euro-zone and adopted the euro as its official currency. The official exchange rate for the switchover was 1 euro = 15.6466 Estonian kroons. The same exchange rate was applied in the comparative period when in accordance with the rules of the NASDAQ OMX Tallinn Stock Exchange the primary financial statements and the notes to the consolidated financial statements were presented in both Estonian kroons and in euros. Because of the application of the same exchange rate, there was no need to adjust the figures that were presented in euros in the comparative period.

USE OF SIGNIFICANT ESTIMATES AND JUDGEMENTS

The preparation of financial statements in conformity with IFRS EU requires management to make judgements, estimates and assumptions that affect the application of policies and the reported amounts of assets, liabilities, income and expenses. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to 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 2011 the Group operated primarily in Estonia. During the year the Estonian economy grew by 7.6% but mostly on account of manufacturing exports. Although the real estate and construction markets grew compared with the slump of 2010, their outlooks remain unclear. Accordingly, management has had to make estimates and exercise judgement in an environment where reliable information on the market prices of some assets is unavailable and the outlooks of the construction and real estate markets continue to be uncertain.

CRITICAL ESTIMATES (E) AND JUDGEMENTS (J) 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) (E)

When the outcome of a construction contract can be estimated reliably, contract revenue is recognised by reference to the stage of completion of the contract activity at the reporting date. The Group estimates the stage of completion 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 construction contracts in progress also because during contract activity it became probable that the total costs of some contracts would exceed or already exceeded the contract revenue. Management's ability to make accurate estimates is critical because an expected loss has to be recognised immediately. Estimates of total contract costs depend primarily on management's estimates of changes in input prices compared with the originally budgeted ones.

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

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

The Group is 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.

On estimating the values of properties held for development the Group relied on valuation reports issued by certified independent real estate appraisers and the calculations of its internal real estate specialists. Most of the properties have an officially adopted detailed plan or the proceedings for the adoption of a detailed plan are in progress. The properties are located in different regions across Estonia (Tallinn, Tartu, Pärnu and Narva). Although in 2011 the real estate market recovered somewhat compared with the slump of 2008-2010, 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, i.e. based on market data.

In addition to the sales comparison method applied by real estate appraisers, the Group analysed the values of properties held for development using the residual value method. The residual value method assumes making more estimates than the sales comparison method. According to the residual value method, the value of a property is the sum that remains from the estimated revenue of the project planned on the property after deduction of estimated construction and other development costs and the developer's reasonable profit margin. The valuations were performed by the Group's real estate specialists with the assistance of external experts. The valuations were performed separately for each property, taking into account the opportunities and specific features of the detailed plan or the planned building rights (including the regional location of the property). Based on valuation results, there was no need to write down properties held for development. The sensitivity analysis of the valuations is presented in the notes to the consolidated financial statements.

Classification (J) and measurement (E) of investment properties (notes 5 and 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 rentals or for capital appreciation or both.

Investment properties are measured to fair value using four methods: the discounted cash flow method, the sales comparison method, the existence of a contract under the law of obligations at the reporting date or the residual value method. The first three are based on appraisals made by third parties or contain a significant amount of factual information. Therefore they are preferred over the residual value method. The residual value method is used when other methods cannot be applied. The residual value method assumes somewhat more extensive estimation.

To determine the fair values of its investment properties the Group requested valuation reports from independent certified real estate appraisers. Owing to the situation of the real estate market in the regions where the Group's investment properties are located (Tartu and Pärnu), appraisers stated in their reports that the market value of the properties could not be determined because there was no reliable information for applying the sales comparison method (the most suitable under the circumstances) as required by the valuation standards. Thus, at the reporting date the Group had no basis for restating the carrying values of its investment properties.

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.

Therefore, the Group measured the value of its investment properties using the residual value method.

Provisions and contingent liabilities (notes 24 and 36) (E)

Provisions are recognised in the statement of financial position based on management's best estimates of the timing and amount of the expenditure required to settle a present obligation at the reporting date. A provision is used only for 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 recent years customers have started demanding longer warranty periods (three to five years). The amount of post-construction warranty liabilities is determined based on historical data on actual warranty expenses, which generally extend to around 0.2-0.6% of total contract costs. Depending on the complexity of the project, the Group may recognise a warranty liability that exceeds historical data.

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

Management estimates the useful life of an item of property, plant and equipment by reference to the expected use of the asset, the Group's operating volumes, historical experience in the area and future prospects. 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) (E)

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

Projected cash flows, which include both working capital investments and capital expenditures, are discounted at the weighted average cost of capital (both debt and equity capital). The net operating cash flows of CGUs do not depend on the capital structure of the specific 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 CGUs ranged from 8% to 14%.

NOTE 3. CHANGES IN ACCOUNTING POLICIES AND PRESENTATION OF FINANCIAL STATEMENTS

NEW AND REVISED STANDARDS AND INTERPRETATIONS EFFECTIVE FOR THE REPORTING PERIOD

None of the new and revised International Financial Reporting Standards, amendments to standards, and interpretations (EU) that became effective for annual periods beginning on 1 January 2011 had an effect on the preparation of the Group's financial statements. List of the new and revised standards, amendments to standards, and interpretations (EU):

- Revised IAS 24 *Related Party Disclosures* (effective for annual periods beginning on or after 1 January 2011)
- IFRIC 14 – *IAS 19 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* (effective for annual periods beginning on or after 1 January 2011)
- IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments* (effective for annual periods beginning on or after 1 July 2010);
- *Amendment to IAS 32 Financial Instruments: Presentation – Classification of Rights Issues* (effective for annual periods beginning on or after 1 February 2010).

NEW AND REVISED STANDARDS AND INTERPRETATIONS PUBLISHED AS AT 31 DECEMBER 2011

At the reporting date amendments had been published to one IFRS (EU) standard which were not yet effective for the reporting period and were therefore not applied in preparing the Group's financial statements:

- *Amendments to IFRS 7 Disclosures – Transfers of Financial Assets* (effective for annual periods beginning on or after 1 July 2011).

The amendments require disclosure of information that enables users of financial statements to understand the relationship between transferred financial assets that are not derecognised in their entirety and the associated liabilities; and to evaluate the nature of, and risks associated with, the entity's continuing involvement in derecognised financial assets. The amendments define "continuing involvement" for the purposes of applying the disclosure requirements.

Because of the nature of the Group's operations and the types of financial assets that it holds, the Group does not expect the amendments to IFRS 7 to have a significant effect on its consolidated financial statements.

NOTE 4.

SIGNIFICANT ACCOUNTING POLICIES

BASIS OF CONSOLIDATION

Business combinations of independent entities and acquisition of goodwill

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

Business combinations of entities under common control

Business combinations involving entities 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. Business combinations of entities under common control do not give rise to positive or negative goodwill. Such transactions 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.

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.

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, 20% to 50% 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 joint ventures (equity-accounted investees) are accounted for using the equity method. The investment is initially recognised at cost, which includes acquisition-related transaction charges. The carrying amount of an investment includes any 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 their accounting policies with those of the Group, from the date the significant influence or joint control commences to the date the significant influence or joint control ceases. When the Group's share of losses exceeds the carrying amount of the investment, the carrying amount of the investment is reduced to nil and recognition of future losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

Jointly controlled operations

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 separate corporation or other entity, or the acquisition of jointly controlled assets. 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 jointly controlled operation.

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 the financial statements of foreign subsidiaries

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

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

	Date	Estonian kroon* (EEK)	Lithuanian litas (LTL)	Ukrainian hryvna (UAH)	Belarusian ruble (BYR)
1 euro (EUR)	31 December 2010	15.6466	3.4528	10.6454	4,009.64
1 euro (EUR)	31 December 2011	–	3.4528	10.2981	10,800.00

* As from 1 January 2011, the Estonian kroon is no longer legal tender and has been withdrawn from circulation. However, the official euro-kroon exchange rate of EUR 1 = EEK 15.6466 will remain valid for an indefinite period.

Hyperinflationary functional currency

The income and expenses of foreign subsidiaries whose functional currency is the currency of a hyperinflationary economy are translated to euros using the exchange rate ruling at the reporting date. Before translation, the financial statements of such foreign subsidiaries are adjusted for changes in the purchasing power of the local currency. The adjustments are made by applying appropriate price indices as at the reporting date.

According to IMF, in 2011 the three-year cumulative inflation rate for Belarus was 100.04% (2010: 37.14%). The inflation rate forecast for 2012 is 20%. If this realises, the three-year cumulative inflation rate will rise to 118%. Belarus was classified as an hyperinflationary economy in the last quarter of 2011.

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 (except for loans granted and receivables) 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). Loans and receivables are recognised on the date they originated. A purchase or sale is considered a regular way purchase or sale if the terms of the contract require delivery of the asset within the time frame established generally by regulation or convention in the marketplace concerned.

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 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. 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 European Central Bank 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 profit or loss for the period.

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

Interest income on loans and receivables is recognised in profit or loss for the period.

Available-for-sale financial assets

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

A gain or loss on a change in the value of an available-for-sale financial asset is recognised in other comprehensive income or expense and 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.

CASH AND CASH EQUIVALENTS

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

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 except for financial liabilities at fair value through profit or loss. Financial liabilities are recognised using trade date accounting, i.e. at the date they are 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 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 receivable 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.

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 (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 which have been completed through real estate development and are available for sale; 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 properties acquired for resale and development whose cost is 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.

INVESTMENT PROPERTY

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

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

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

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are tangible 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 (including borrowing costs) directly attributable to its acquisition. After initial recognition, items of property, plant and equipment are carried at cost less any accumulated depreciation and any accumulated impairment losses.

If an item of property, plant and equipment consists of significant parts that have different useful lives, the parts are accounted for separately and 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 carrying amount is equal to their residual value. The residual value of an asset is the amount that the Group would currently obtain from the disposal of the asset, if the asset were already of the age and in the condition expected at the end of its useful life.

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

The Group assesses whether the carrying amount of an item of property, plant and equipment 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. Gains and losses arising from derecognition of items of property, plant and equipment are recognised in other operating income or other operating expenses respectively 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 discontinued. A non-current asset held for sale is measured at the lower of its carrying amount and fair value less costs to sell.

BORROWING COSTS

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are recognised as part of the cost of that asset. Borrowing costs that are directly attributable are those borrowing costs that would have been avoided if expenditure on the qualifying asset had not been made.

If funds are borrowed specifically for the purpose of obtaining a qualifying asset, the Group determines the amount of borrowing costs eligible for capitalisation as the actual borrowing costs incurred on that borrowing during the period less any investment income on the temporary investment of those borrowings.

Other borrowing costs are recognised in profit or loss in the period in which they are incurred using the effective interest rate method.

INTANGIBLE ASSETS

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

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

Asset class	Useful life in years
Licences and 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 the estimate 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*.

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.

Impairment testing is described 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.

IMPAIRMENT OF ASSETS

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.

Assets measured at amortised cost

An impairment loss in respect of loans and receivables and held-to-maturity investments measured at amortised cost is recognised when the carrying amount of the asset exceeds its recoverable amount. Impairment losses on loans and receivables are recognised in profit or loss in the period in which they are incurred. Recognition of interest income on the asset continues. When a financial asset for which an impairment loss has been recognised is recovered or another event occurs that reverses the impairment loss that has been recognised, the reversal is recognised in profit or loss by reducing the line item where the impairment loss was originally recognised.

Financial assets that are individually significant are assessed for impairment individually. If a receivable is 180 days or more past due, the receivable is considered doubtful (impaired) and is 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. Assets that are not individually significant are assessed for impairment collectively, in groups of assets with similar risk characteristics.

Available-for-sale financial assets

When an available-for-sale financial asset becomes impaired, the difference between the cost of the financial asset (net of any principal repayments and amortisation) and its current fair value (less any impairment loss previously recognised in profit or loss) is reclassified from equity to profit or loss.

A subsequent increase in the fair value of a debt instrument is recognised in profit or loss as a reduction of the originally recognised impairment loss. A subsequent increase in the fair value of an equity instrument is recognised in other comprehensive income or expense.

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 (CGU) is the higher of its fair value less costs to sell and the present value of the expected future cash flows. Value in use is calculated by estimating the future cash flows expected to be derived from the asset and by 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 CGU). Where necessary, the fair value of an asset is determined with the assistance of independent experts. Impairment losses on assets including impairment losses on CGUs are recognised in profit or loss. An impairment loss for a CGU is recognised by first reducing the carrying amount of any goodwill allocated to the CGU and then the carrying amounts of other assets of the unit on a pro rata basis.

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 CGU to which goodwill has been allocated.

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

The Group assesses at least at each reporting date whether there is any indication that an impairment loss recognised in prior periods no longer exists or may have decreased. If such indication exists, the impairment loss 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 line item where the original impairment loss was recognised). As an exception, impairment losses for goodwill are not reversed.

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 increase in the discounted amount arising from the passage of time and changes in the discount rate (unwinding of a discount) is recognised in profit or loss. Provisions are carried at their discounted present value if the effect of discounting is material.

A warranties 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 based on the Group's historical experience of the expenditure required to settle the obligation. 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 do this.

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

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 incentive payments to be made under profit-sharing and incentive plans are calculated and recognised as an expense and a liability based on formulas approved by the Group's board or council. The Group recognises the expected cost of profit-sharing and incentive payments 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.

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 leases are depreciated similarly to owned assets. Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

The Group recognises assets leased out under finance leases 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.

An operating lease is a lease other than a finance 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 expenses 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 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 achieved. The statutory capital reserve may not be distributed as dividends but it may be used for covering accumulated losses if the latter cannot be covered with unrestricted equity. The capital reserve may also be used for increasing share capital by means of a bonus issue. The Group's capital reserve includes the subsidiaries' capital reserves 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 a current liability and the associated income or expense is recognised in profit or loss as it arises.

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

Parent company and subsidiaries and 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 2011 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 2012. 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 consolidated financial statements.

Foreign subsidiaries and joint ventures

In Ukraine, Belarus, Finland, Latvia and Lithuania corporate profits are subject to income tax. The income tax rates are as follows: Ukraine 23% (2010: 25%), Belarus 24% (2010: 26.28%), Finland 26%, Latvia 15% (the Group discontinued its operations in Latvia in 2010) and Lithuania 15%. 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 the Group's other operating segments) and for which discrete financial information is available. The profit or loss of a segment may include items allocated to segments on a reasonable basis. Financial items that cannot be allocated relate to the parent company's administrative activities or do not have a reasonable basis for allocation.

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

REVENUE

Revenue is 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 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 sale of goods purchased and finished goods

Revenue from the sale of goods purchased and finished 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.

Transfer of the significant risks and rewards of ownership from the seller to the buyer depends, above all, on the nature of the transaction and the terms and conditions of the contract. Upon sale of goods purchased, transfer generally occurs when the goods are physically delivered to the buyer. The transfer of real estate completed by the Group through development activities or acquired by the Group for development purposes is generally fixed in a notarised real right contract (contract on the transfer of title). 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.

GOVERNMENT GRANTS

Government grants related to assets are recognised initially as deferred income at fair value when there is reasonable assurance that they will be received and the Group will comply with the conditions attaching to the grant. The amounts received are recognised in profit or loss on a systematic basis over the useful life of the asset.

Grants related to income that compensate the Group for expenses incurred are recognised in profit or loss on a systematic basis in the same periods in which the expenses are recognised.

CONSTRUCTION WORK IN PROGRESS

The revenues and costs of a construction contract in progress 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 and in full in profit or loss.

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 losses 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 the policy *Impairment of assets*). Impairment losses are recognised in profit or loss.

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

NOTE 5.

FINANCIAL RISK MANAGEMENT

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

- Credit risk
- Liquidity risk
- Market risk

The Group's risk management process is based on the premise that effective risk management assumes ongoing identification and accurate assessment of the potential impacts of the risks faced by the Group and rigorous adherence to the risk management policies in place. The main objective of risk management is to prevent any adverse impacts that could jeopardise the Group's compliance with the terms and conditions set by creditors, the sufficiency of the Group's equity and the Group's ability to continue as a going concern.

The Group establishes risk management policies and implements controls and activities that are aimed at identifying and analysing risks, monitoring risk levels 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 the audit committee formed by the council.

Credit risk

Credit risk is the risk that the counterparty will cause a financial loss for the Group by failing to discharge its obligations under a financial instrument. The Group is exposed to credit risk mainly through trade receivables and loans granted.

The factors, which have the strongest impact on the Group's credit risk exposure, are the specific circumstances of each customer. In addition, the Group's management considers 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 these factors may also influence the Group's exposure to 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. The latter assessment is confirmed by the fact that there has been practically no need to write down receivables from public sector customers. In 2011 public sector projects accounted for around 55% of the Group's revenue (2010: over 50%). The Group has a relatively large customer base but from the point of view of credit risk the proportion of major customers may be significant. In 2011 the largest customer (the Estonian Road Administration) accounted for around 17% of the Group's revenue (2010: around 26%).

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 security (e.g. payment guarantees issued by banks) for trade receivables unless the recoverability of a receivable becomes impaired. Then the Group requests a settlement guarantee from the counterparty. The loans granted by the Group to non-Group parties have to be secured with mortgages, sureties or guarantees provided by third parties.

When a credit loss is anticipated, the receivable or loan involved is written down. Impairment losses are recognised based on probable credit losses expected from specific counterparties. In accordance with the Group's accounting policies, all receivables that are more than 180 days past due 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 35.

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. The Group's liquidity is influenced, first and foremost, by the following factors:

- The Group's business is subject to seasonal fluctuations, particularly in the Infrastructure segment. In the first quarter of the year, business volumes and profit margins are the lowest and the Group needs to use the cash accumulated in previous periods to cover its operating and administrative expenses. In the second quarter, growth in operating activities triggers the need for additional working capital.
- Due to the conditions prevailing in the market, the Group collects payments from customers mostly within 45 to 60 days and makes payments to suppliers and subcontractors mostly within 21 to 45 days. The mismatch between settlements received and made has to be covered with internal funds.
- the volume and pace at which the Group acquires new investments;
- the settlement schedules fixed in its loan and lease agreements.

Short-term liquidity management is effected through Group entities' approved annual budgets and investment plans. The main tools for short-term liquidity management are the group accounts that pool the Group's monetary funds and help mitigate seasonal fluctuations in Group entities' liquidity. Additional short-term financing needs are satisfied with overdraft facilities provided by banks.

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

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).

Further information on the Group's liquidity is disclosed in note 35.

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

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

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 which the Group's Estonian entities signed in earlier 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 euro-based loan and lease liabilities. In recent years, the proportion of such liabilities has decreased significantly and currency risk is no longer significant. In the reporting period the exchange rate of the hryvna against the US dollar and the euro remained stable, strengthening slightly. In 2011, the Group's foreign exchange gains from Ukrainian operations totalled 146 thousand euros (2010: exchange losses totalled 447 thousand euros). At the reporting date, the Group's non-Ukrainian entities had no financial instruments denominated in UAH. In 2012 the Group's Ukrainian operations are expected to remain limited, which reduces the Group's currency risk exposure.

The Belarusian national currency, the ruble (BYR), also floats against other currencies (the exchange rate is essentially determined by the central bank of the country). In 2011 the weakness of the Belarusian economy forced the central bank to devalue the ruble almost 2.7 times compared with the beginning of the year. The Group mitigated its currency risk in Belarus by linking its construction contract revenues and other proceeds to the euro. The Group's other subsidiaries do not have financial instruments denominated in Belarusian rubles. Therefore the Belarusian currency risk is not significant. The Group intends to discontinue 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. The exchange rate of the Lithuanian litas against the euro is fixed. The Lithuanian subsidiary does not have financial investments in currencies other than the euro. At the reporting date, the Group's non-Lithuanian entities had no financial instruments denominated in the Lithuanian litas (LTL).

The Group discontinued its operations in Latvia in 2010 and was at the end of the reporting and comparative periods not 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 Latvian lats (LVL).

Owing to the relative insignificance of open positions in respect of other currencies, the Group has not implemented hedging instruments to counteract the currency risk.

Interest rate 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, at a fixed interest rate. However, as regards loan products offered by banks, observance of the policy has proved difficult. Most new contracts have a floating interest rate. Realisation of the cash flow risk of interest payments depends on the success of operating activities. The Group does not use derivative financial instruments to hedge its interest rate risk.

Further information on the Group's market risk exposures is disclosed in note 35.

Country risk

The Group operates in Ukraine, Belarus and Finland. At the reporting date, revenues earned from those countries and assets located in those countries accounted for 3% (2010: 5%) and 1% (2010: 11% of which Ukraine 10%) of the Group's total revenue and assets respectively. The Ukrainian economy (including the construction and real estate market) 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 35).

DETERMINATION OF FAIR VALUE

In accordance with the Group's accounting policies and the IFRS EU disclosure requirements, the Group has to disclose estimates of the fair values of its financial instruments and investment properties. Fair values have been determined as described below.

Financial instruments

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

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 construction contracts in progress) is based on the present value of their future cash flows discounted at the market interest rate at the reporting date. Non-current fixed-interest financial assets 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 as outlined in the statistics published by the Bank of Estonia.

A comparison of the fair values and carrying amounts of the Group's financial instruments is presented in note 35.

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 fair 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 are 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 contract³ 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.
- Residual value method – Under this method the fair value of a property is the sum that remains from estimated project revenue after the deduction of estimated construction and other development costs and the developer's reasonable profit margin. The residual value method is used when the above methods cannot be applied. The residual value method assumes somewhat more extensive estimation. The valuation is performed separately for each property, taking into account the opportunities and specific features of the detailed plan or the planned building rights (including the regional location of the property). When fair value is determined using the residual value method, the expected income from a future sale of the property has to correspond to market terms.

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 from third parties. 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 years 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

³ 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.

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 measured the fair values of the investment properties using the residual value method. The valuations were performed by the Group's real estate specialists with the assistance of external experts. Based on the valuation results, no change in the fair value of investment properties was required. The effect of changes in estimates on the value of the Group's investment properties is presented in note 16.

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.

As anticipated, the Group's gearing ratio has decreased by 9 percentage points compared with 2010 on account of a decrease in interest-bearing liabilities. In light of the Group's recent years' operating results, the pace at which interest-bearing liabilities have decreased under contractual settlement schedules has been burdensome. In 2011, the Group agreed with banks that settlement of its principal payments would be partially suspended in 2011 and 2012. Depending on the Group's needs and the outcomes of negotiations, the repayment holiday (applying to principal payments) may be extended to 2013. Accordingly, the Group does not expect that the gearing ratio will decrease any further next year.

Gearing ratio is at a level that does not influence the Group's 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. The ceiling of the gearing ratio is related to the size of equity. At the reporting date, under the capital management principles in place the gearing ratio could have extended to 45% (2010: 63%), assuming all other variables remained constant.

At the present level the gearing ratio is in line with the Group's strategic development plans until 2013.

EUR '000	2011	2010
Total interest-bearing liabilities (see note 19)	28,643	34,608
Cash and cash equivalents (see note 8)	-9,908	-5,818
Net interest-bearing liabilities	18,735	28,790
Total equity	28,397	33,439
Invested capital (interest-bearing liabilities + equity)	57,040	68,047
Gearing ratio ⁴	33%	42%

⁴ Gearing ratio = net interest-bearing liabilities / invested capital.

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 (2011 actual: 28.0%; 2010: 35.1%).

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 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 ultimate controlling shareholder AS Nordic Contractors
- The general 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.

NOTE 6.

SCOPE OF CONSOLIDATION

The consolidated financial statements of Nordecon Group as at and for the year ended 31 December 2011 comprise 23 subsidiaries, 16 of them operating in Estonia, 4 in Ukraine, 1 in Lithuania, 1 Belarus and 1 in Finland.

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

Subsidiary	Core business	Country of incorporation	Ownership interest 2011 (%)	Ownership interest 2010 (%)
Nordecon Betoon OÜ	Concrete works	Estonia	52	52
Eston Ehitus AS	Building construction	Estonia	98	98
Järva Teed AS	Road construction and maintenance	Estonia	100	100
Hiiu Teed OÜ	Road construction and maintenance	Estonia	100	100
Kaurits OÜ	Leasing out 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	98
Eurocon Vara OÜ ⁵	Holding company (UKR)	Estonia	100	100
Eurocon Ukraine TOV	Building construction	Ukraine	100	64
Eurocon West TOV ⁶	Building construction	Ukraine	100	64
Instar Property TOV ⁶	Real estate development	Ukraine	98	64
Eurocon OÜ	Holding company (UKR)	Estonia	64	64
Instar Property OÜ ⁶	Real estate development	Estonia	64	64
MP Ukraine TOV ⁶	Concrete works	Ukraine	54	53
Eurocon Stroi IOOO	Building construction	Belarus	100	100
Estcon Oy	Concrete works	Finland	52	52
Nordecon Statyba UAB ⁶	Building construction	Lithuania	70	70

⁵ Former name Rendiekspert OÜ;

⁶ Not currently 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 the former business names of some Group entities) and OÜ Infra Ehitus. All of these are currently dormant.

At 31 December 2011, the Group also had interests in 5 associates (2010: 5 associates) and 1 joint venture (2010: 1 joint venture). Further information on equity-accounted investees is presented in note 13.

Information on changes in the ownership interests of Eurocon Ukraine TOV, Eurocon West TOV, Instar Property TOV and MP Ukraine TOV is provided in note 7.

NOTE 7. BUSINESS COMBINATIONS

ACQUISITION OF AN ADDITIONAL STAKE IN EUROCON UKRAINE TOV

In December 2011, the Group's subsidiary Eurocon OÜ (Nordecon AS's interest: 64%) sold its 100% interest in its Ukrainian subsidiary Eurocon Ukraine TOV to another Group company Eurocon Vara OÜ (wholly-owned subsidiary of Nordecon AS, former name Rendiekspert OÜ). The transaction involved also the transfer of ownership interests in Eurocon Ukraine TOV's Ukrainian subsidiaries (Eurocon West TOV, Instar Property TOV) and associates (V.I. Center TOV and Technopolis-2 TOV). The purpose of the intra-Group restructuring was to balance Nordecon AS's Ukrainian risks and benefits. The cost of the transaction was 1 euro.

Effect of the transaction on the consolidated financial statements:

- the non-Group portion of the transaction resulted in a realised gain for the non-controlling shareholders of Eurocon OÜ of 269 thousand euros (note 33);
- The decrease in non-controlling interest gave rise to a loss in equity attributable to equity holders of the parent of 389 thousand euros (recognised within equity as a change in non-controlling interest and retained earnings);
- Part of the exchange differences on the translation of the foreign subsidiaries' financial statements, which were recognised within the translation reserve in equity, realised and the arising loss of 393 thousand euros was recognised in other comprehensive income/expense.

NOTE 8. CASH AND CASH EQUIVALENTS

EUR '000	31 December 2011	31 December 2010
Current accounts with banks	9,908	5,818
Total cash and cash equivalents	9,908	5,818

The amounts in current accounts are placed in overnight deposits. During the reporting period, the interest rates of overnight deposits ranged from 0.1% to 0.17%.

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 35.

NOTE 9. TRADE AND OTHER RECEIVABLES

EUR '000			
Current portion	Note	31 December 2011	31 December 2010
Trade receivables	35	14,783	15,319
Retentions receivable	28	2,544	1,121
Receivables from related parties	38	982	1,741
Loans to related parties	38	8,150	9,354
Miscellaneous receivables		1,057	757
Total receivables and loans granted		27,516	28,292
Due from customers for contract work	28	7,129	2,974
Total trade and other receivables		34,645	31,266

EUR '000

Non-current portion	Note	31 December 2011	31 December 2010
Loans to related parties	38	2,117	1,994
Miscellaneous long-term receivables		387	221
Total trade and other receivables		2,504	2,215

Trade receivables are presented net of impairment allowances which at the reporting date totalled 2,790 thousand euros (31 December 2010: 2,955 thousand euros). Changes in the allowance for impaired receivables are presented in note 35.

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.

NOTE 10. PREPAYMENTS

EUR '000

	31 December 2011	31 December 2010
Prepayments to suppliers	2,173	129
Prepaid taxes	182	681
Prepaid expenses	255	250
Total prepayments	2,610	1,060

Prepayments to suppliers comprise prepayments for services of 2,085 thousand euros (31 December 2010: 34 thousand euros) and prepayments for building materials of 88 thousand euros (2010: 95 thousand euros).

NOTE 11. INVENTORIES

EUR '000

	31 December 2011	31 December 2010
Raw and other materials	3,120	3,125
Work in progress	5,330	4,290
Finished goods	2,407	4,032
Properties purchased for sale and development	13,263	13,535
Total inventories	24,120	24,982

Raw and other materials comprise materials acquired for construction projects and road maintenance. In 2011 no materials were written down (2010: no write-down).

Work in progress comprises the costs related to construction contracts in progress 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:

EUR '000

	31 December 2011	31 December 2010
Costs related to apartment buildings and development projects not yet started	1,874	1,877
Other construction projects	3,456	2,413
Total	5,330	4,290

Finished goods comprise the construction costs of apartments completed but not yet sold. The decrease in finished goods reflects sale of apartments. A comparison with market prices indicated that in the reporting period the net realisable values of the apartments did not decline and there was no need for a write-down (2010: no write-down).

At the reporting date, the total carrying value of properties purchased for sale and development was 13,263 thousand euros (2010: 13,535 thousand euros). The Group has not started active development operations on these properties. All post-acquisition expenditures incurred in making preparations for development operations that qualify for capitalisation have been recognised in work in progress. At 31 December 2011 the properties were carried at cost. Information on inventories pledged as collateral is presented in note 37.

Potential impact of changes in estimates

The Group measured the net realisable value of real estate acquired for development using the residual value method. One of the significant valuation inputs was the estimated amount of future project cash flows (estimated sales price of the apartments per square metre). A sensitivity analysis reflected that a 10% decrease in actual sales proceeds (compared with the estimate), would require the Group to write the real estate down by around 1,648 thousand euros.

The net realisable value of apartments completed but not sold was measured by reference to a comparison with the actual sales prices of apartments sold near the reporting date. One of the significant valuation inputs was price per square metre. A sensitivity analysis reflected that a 10% decrease in actual sales proceeds (compared with the estimate), would require the Group to write completed but unsold apartments down by around 248 thousand euros.

NOTE 12. NON-CURRENT ASSETS HELD FOR SALE

EUR '000	31 December 2011	31 December 2010
Non-current assets held for sale	242	321
Total non-current assets held for sale	242	321

Non-current assets held for sale include heated construction site shelters. The Group has decided to sell the shelters because demand for construction services has decreased and the Group has more site shelters than it needs. During the year, efforts were made to find potential buyers.

In 2011 non-current assets held for sale were written down by 84 thousand euros (see note 32) based on actual bids received. The Group expects to sell the assets classified as held for sale in 2012.

NOTE 13. INVESTMENTS IN EQUITY-ACCOUNTED INVESTEEES

GENERAL INFORMATION ON EQUITY-ACCOUNTED INVESTEEES:

			Group's interest		Business line
Name and type of investee	Domicile		31 December 2011	31 December 2010	
V.I. Center TOV	Associate	Ukraine	44%	28%	Real estate development
Technopolis-2 TOV	Associate	Ukraine	50%	32%	Real estate development
Kastani Kinnisvara OÜ	Associate	Estonia	26%	26%	Real estate development
Sepavara OÜ	Associate	Estonia	49%	49%	Real estate development
Pigipada OÜ	Associate	Estonia	49%	49%	Bitumen refining
Unigate OÜ	Joint venture	Estonia	50%	50%	Real estate development

In December 2011, Group company Eurocon OÜ (interest of the Group's parent Nordecon AS: 64%) sold its subsidiary Eurocon Ukraine TOV along with the subsidiary's interests in other entities to Eurocon Vara OÜ (Nordecon AS's interest: 100%) (see notes 6 and 7). The intra-group restructuring increased Nordecon AS's indirect interest in the associates Technopolis-2 TOV and V.I. Center TOV.

CARRYING AMOUNTS OF EQUITY-ACCOUNTED INVESTEEES:

EUR '000	31 December 2011	31 December 2010
Investments in equity-accounted investees (associates and joint ventures)	199	99
Total investments in equity-accounted investees	199	99

FINANCIAL INFORMATION ON EQUITY-ACCOUNTED INVESTEEES

2011

Summary financial information on associates presented as separate companies

EUR ´000	31 December 2011				2011	31 December 2011
Associate	Assets	Liabilities	Equity	Revenue	Profit/loss	Value of investment in the Group’s accounts
V.I. Center TOV	12,616	16,424	-3,808	20	299	0
Technopolis-2 TOV	467	1,956	-1,489	1	-194	0
Kastani Kinnisvara OÜ	830	1,003	-173	307	-172	0
Sepavara OÜ	471	471	0	0	-1	0
Pigipada OÜ	721	513	208	3,220	237	102
Total	15,105	20,367	-5,262	3,548	169	102

The Group does not have a binding obligation to restore the negative equity of the Ukrainian investees. Therefore, the Group has not established corresponding provisions.

Nor has the Group established a provision for restoring the negative equity of Kastani Kinnisvara OÜ. According to plan the associate's negative equity will be restored by waiving the right to demand repayment of a loan granted to it and with the profit the entity is expected to generate in 2012. For this, in 2011 loan receivables from the associate were written down by 46 thousand euros (2010: 320 thousand euros).

Summary financial information on the joint venture presented as a separate company:

EUR '000	31 December 2011					2011	31 December 2011
Company	Current assets	Non-current assets	Current liabilities	Non-current liabilities	Revenue	Expenses	Value of investment in the Group's accounts
Unigate OÜ	3,637	0	3,517	0	0	2	97

The carrying amount of the investment in Unigate OÜ includes goodwill of 37 thousand euros. In the reporting period, the goodwill was not written down because the discounted present value of the expected cash flows exceeded the carrying value of the investment.

2010

Summary financial information on associates presented as separate companies:

EUR '000	31 December 2010			2010	31 December 2010	
Associate	Assets	Liabilities	Equity	Revenue	Profit/loss	Value of investment in the Group's accounts
V.I. Center TOV	11,411	15,405	-3,994	18	965	0
Technopolis-2 TOV	450	1,688	-1,238	0	-178	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
Total	14,199	19,461	-5,261	421	474	1

Summary financial information on the joint venture presented as a separate company:

EUR '000	31 December 2010					2010	31 December 2010
Company	Current assets	Non-current assets	Current liabilities	Non-current liabilities	Revenue	Expenses	Value of investment in the Group's accounts
Unigate OÜ	3,402	0	40	3,240	0	3	98

THE GROUP'S SHARE OF PROFIT OR LOSS OF EQUITY-ACCOUNTED INVESTEEES

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

EUR '000	Recorded in 2011			Recorded in 2010		
	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
V.I. Center TOV	84	0	84	270	0	270
Technopolis-2 TOV	-62	0	-62	-57	0	-57
Kastani Kinnisvara OÜ	-45	0	-45	-72	-320	0
Sepavara OÜ	0	0	0	-1	-1	0
Pigipada OÜ	116	101	15	-16	-1	-15
Unigate OÜ	-1	-1	0	-1	-1	0
Crislivinca OÜ ⁷	-	-	-	-315	-39	-308
Magasini 29 OÜ ⁷	-	-	-	-155	-155	0
Total	92	100	-8	-347	-517	-110

⁷ Crislivinca OÜ and Magasini 29 OÜ ceased to be associates as from July 2010, when the Group exchanged its interest in Crislivinca OÜ for a majority stake in Magasini 29 OÜ. By the transaction, the Group gained control of Magasini 29 OÜ and disposed of the interest in Crislivinca OÜ.

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 jointly controlled operations, 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 2011 and in 2010 the Group participated in jointly controlled operations under the following partnership contracts:

Name of jointly controlled operation EUR '000	Group's interest		Total value of contract	
	2011	2010	2011	2010
Construction of the Koidula railway border station	–	62%	–	17,089
Construction of the Ahtme peak load boiler plant	50%	50%	8,576	8,564
Construction of a water treatment plant for the Väike-Maarja animal waste treatment plant	48%	38%	1,917	1,914
Construction of water and wastewater pipelines and facilities for the town of Maardu	50%	50%	6,353	6,586
Design and build of the Aruvalla-Kose road section	99%	–	39,260	–

Changes in contract volume generally result from changes in construction volume, not from indexation of construction prices.

Changes in the Group's interest generally result from agreements between the contract partners.

NOTE 15. OTHER LONG-TERM INVESTMENTS

EUR '000	31 December 2011	31 December 2010
Other long-term investments	26	26
Total other long-term investments	26	26

Other long-term investments comprise the Group's 6% interest in E-Trading AS, which 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

EUR '000	2011	2010
Investment property at 1 January	4,930	5,623
Sales	0	-693
Investment property at 31 December	4,930	4,930

In 2011, rental income on investment properties amounted to 8 thousand euros (2010: 27 thousand euros) and direct property management expenses totalled 3 thousand euros (2010: 47 thousand euros).

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

Potential impact of changes in estimates

The Group measured the fair value of its investment properties using the residual value method. One of the significant valuation assumptions was the compliance of the applied owner's rate of return with effective market conditions. Upon valuation, the applied rates of return fell between 12% and 16%. According to the Group's assessment, in light of the location and stage of development of the properties, the rates corresponded to those expected on the market. A sensitivity analysis reflected that if the rate of return were 3% higher, investment properties would have to be written down by around 1,311 thousand euros.

NOTE 17.

PROPERTY, PLANT AND EQUIPMENT

EUR '000	Land and buildings	Plant and equipment	Other items of PP&E	Assets under construction	Total
Cost					
At 31 December 2009	2,305	22,931	3,621	142	28,999
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
At 31 December 2010	2,340	18,373	3,498	115	24,326
Additions	6	740	67	10	823
Disposals	0	-1,067	-103	-2	-1,172
Effect of movements in exchange rates	0	9	-3	0	6
At 31 December 2011	2,346	18,055	3,459	123	23,983
Depreciation					
At 31 December 2009	226	13,534	2,194	0	15,954
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
At 31 December 2010	308	12,476	2,504	0	15,288
Depreciation for the year	83	1,863	335	0	2,281
Disposals	0	-906	-123	0	-1,029
Effect of movements in exchange rates	0	3	3	0	6
At 31 December 2011	391	13,436	2,719	0	16,546
Carrying amount					
At 31 December 2009	2,079	9,398	1,427	142	13,045
At 31 December 2010	2,033	5,898	993	114	9,038
At 31 December 2011	1,955	4,619	740	123	7,437

Group entities have secured their liabilities by mortgaging immovable property (plots and buildings). Information on assets pledged as collateral is presented in note 37.

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

Depreciation expense has been recognised in the statement of comprehensive income, in the cost of sales in an amount of 2,197 thousand euros (2010: 2,894 thousand euros) (see note 30) and in administrative expenses in an amount of 84 thousand euros (2010: 89 thousand euros) (see note 31).

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

EUR '000	2011			2010		
	Plant and equipment	Other items of PP&E	Total	Plant and equipment	Other items of PP&E	Total
Cost at 31 December 2011	9,575	189	9,764	11,111	416	11,527
Carrying amount at 31 December 2011	3,851	123	3,974	4,272	181	4,453

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 2011, the Group entered into new finance lease contracts of 672 thousand euros (2010: 443 thousand euros) (see note 20).

NOTE 18. INTANGIBLE ASSETS

EUR '000	Note	Goodwill	Software licences	Trademarks	Development costs	Total
Cost						
At 31 December 2009		16,294	133	863	323	17,613
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		-1,333	-24	0	0	-1,357
Write-down of goodwill	32	-411	0	0	0	-411
Effect of movements in exchange rates		0	1	0	0	1
At 31 December 2010		14,851	82	863	323	16,119
Other additions		0	4	0	0	4
Disposals		0	-16	0	0	-16
Write-down of goodwill	32	-425	0	0	0	-425
At 31 December 2011		14,426	70	863	323	15,682
Amortisation						
At 31 December 2009		0	95	375	0	470
Amortisation for the year		0	16	192	0	208
Disposals		0	-31	0	0	-31
Disposals through disposal of a subsidiary		0	-13	0	0	-13
At 31 December 2010		0	67	566	0	633
Amortisation for the year		0	11	94	0	105
Disposals		0	-16	0	0	-16
At 31 December 2011		0	62	660	0	722
Carrying amount						
At 31 December 2009		16,294	39	487	323	17,143
At 31 December 2010		14,851	15	297	323	15,486
At 31 December 2011		14,426	8	203	323	14,960

Capitalised development costs result from preparations made for the extraction of sand deposits from the seabed. The preparations will continue in 2012.

Amortisation has been recognised in the statement of comprehensive income, in the cost of sales in an amount of 6 thousand euros (2010: 1 thousand euros) (see note 30) and in administrative expenses in an amount of 99 thousand euros (2010: 207 thousand euros) (see note 31).

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

				EUR '000
Company	Interest 2011	Interest 2010	31 December 2011	31 December 2010
Nordecon AS				
Goodwill ⁸	–	–	8,206	8,206
Subsidiaries of Nordecon AS				
Eurocon OÜ	64%	64%	–	425
Nordecon Betoon OÜ	52%	52%	181	181
OÜ Kaurits	66%	66%	2,022	2,022
Eston Ehitus AS	98%	98%	4,017	4,017
Total			14,426	14,851

⁸ The goodwill of former subsidiaries Nordecon Ehitus AS and Nordecon Infra AS. The companies were combined with Nordecon AS from 1 January 2011. Since the merger, those items of goodwill have been carried in the statement of financial position of Nordecon AS.

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 at the date the impairment test was performed:

- The forecast period was 2012-2015 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% to 6.0% and the expected rate of return on equity was set at 15% to 20%, which was compared against the required rate of return on equity for companies operating in a similar industry.
- Changes in subsequent periods' revenues were projected on the basis of the action plans of the company (cash-generating unit) for subsequent years (including the budget approved by management for 2012) 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 years (including the budget approved by management for 2012) 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 2012.
- 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 2012 and by applying to it growth rates suitable for subsequent years, estimated by reference to projections of the company's future activity.

Nordecon AS	Assumptions applied
Forecast period	2012-2015 + terminal year
Discount rate	9.9%
Revenue change	2012: 19%, 2013-2015: growth 5-10% per year, 1% in the terminal year
Gross margin	Based on the budget for 2012, gradual growth in 2012-2015 to up to 8%, in the terminal year 8%
Administrative expenses	See general assumptions, in 2012-2015 approx. 3-4% of revenue, in the terminal year 4%
Working capital	See general assumptions
Capital expenditures	See general assumptions

Eurocon OÜ	Assumptions applied
Forecast period	2012-2015 + terminal year
Discount rate	13.6%
Revenue change	Any forecasts of revenue change in the current market situation would be unrealistic
Gross margin	Based on the budget for 2012, gradual growth in 2013-2015 to up to 8%, in the terminal year 8%
Administrative expenses	See general assumptions, in 2012-2013: 9-11% of revenue, 2014-2015: 5%, in the terminal year 5%
Working capital	See general assumptions
Capital expenditures	See general assumptions

The goodwill allocated to Eurocon OÜ could not be measured reliably. Therefore, the goodwill allocated to the cash-generating unit was written down by 425 thousand euros.

Nordecon Betoon OÜ	Assumptions applied
Forecast period	2012-2015 + terminal year
Discount rate	10%
Revenue change	2012: -36%, 2013-2015: 3-5% growth per year on average, 1% in the terminal year
Gross margin	Based on the budget for 2012, gradual growth in 2013-2015 to up to 7.5%, in the terminal year 7%
Administrative expenses	See general assumptions, in 2012-2015: 3-5% of revenue, in the terminal year 5%
Working capital	See general assumptions
Capital expenditures	See general assumptions

Kaurits OÜ	Assumptions applied
Forecast period	2012-2015 + terminal year
Discount rate	8.3%
Revenue change	2012: -12%, 2013-2015: 2-3% growth per year, 1% in the terminal year
Gross margin	Based on the budget for 2012, 2013 up to 8%, from 2014 gross margin will exceed 10% because the depreciation of the fleet of machinery will decline significantly
Administrative expenses	See general assumptions, 2012-2015 approx. 3-4% of revenue, in the terminal year 5%
Working capital	See general assumptions
Capital expenditures	See general assumptions. 2012-2014 the fleet of machinery needs to be renewed.

Eston Ehitus AS	Assumptions applied
Forecast period	2012-2015 + terminal year
Discount rate	10.4%
Revenue change	2012: growth 7%, 2013-2015: 20% growth per year on average, 1% in the terminal year
Gross margin	Based on the budget for 2012, gradual growth in 2013-2015 to up to 8%, in the terminal year 8%
Administrative expenses	See general assumptions, 2012-2015 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 are recognised in profit or loss, in other operating expenses. Total impairment losses recognised for goodwill in profit or loss and recorded in segment reporting:

CGU (EUR '000)	Segment	2011	2010
Nordecon Infra SIA ⁹	–	0	110
Magasini 29 OÜ	Buildings EU	0	301
Eurocon OÜ	Buildings UKR	425	0
Total		425	411

⁹ 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 Nordecon AS, which at that time acted as a holding company. The results of a holding company were not included in the information of reportable segments in 2010.

Potential impact of changes in estimates

The value in use of a cash-generating unit is compared to the carrying amount of the investment made plus the carrying amount of the goodwill allocated to it. Value in use is an estimate. Therefore, any changes in selected inputs may increase or reduce the value obtained. The Group's management performed a sensitivity analysis that reflected 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 (applied in the calculations: 10.5%) does not exceed 15.5%, assuming all other variables remain constant.

NOTE 19. LOANS AND BORROWINGS

SHORT-TERM LOANS AND BORROWINGS:

EUR '000	Note	31 December 2011	31 December 2010
Overdraft liability		7,628	8,381
Current portion of long-term loans and borrowings of which		8,666	7,771
Bank loans		6,996	5,666
Finance lease liabilities	20	1,670	2,105
Short-term bank loans		1,660	230
Factoring liability		1,176	2,849
Total short-term loans and borrowings		19,130	19,231

LONG-TERM LOANS AND BORROWINGS:

EUR '000	Note	31 December 2011	31 December 2010
Total long-term loans and borrowings of which:		18,179	23,148
Current portion		8,666	7,771
Non-current portion of long-term loans and borrowings of which		9,513	15,377
Bank loans		7,265	12,314
Finance lease liabilities	20	1,264	2,078
Other long-term loans		984	984

DETAILS OF LOANS AS AT 31 DECEMBER 2011:

EUR '000

Loan type	Base currency	Interest rate	Up to 1 year	1-2 years	3-... years	Total loan	Maturity date
Overdraft ¹⁰	EUR	6M Euribor+3.95%	2,149	0	0	2,149	31 March 2012
Overdraft	EUR	3.82%	1,189	0	0	1,189	30 September 2012
Overdraft	EUR	Bank base rate+2.5%	4,290	0	0	4,290	28 September 2012
Revolving credit line ¹⁰	EUR	4M Euribor+3%	1,660	0	0	1,660	31 March 2012
Investment loan	EUR	6M Euribor+1.5%	1,710	3,728	0	5,438	11 January 2013
Investment loan	EUR	4.1%	0	3,263	0	3,263	30 October 2013
Investment loan	EUR	5.0%	1,401	0	0	1,401	29 December 2012
Investment loan	EUR	6M Euribor+1%	54	107	167	328	18 September 2017
Investment loan	EUR	6M Euribor+3%	1,850	0	0	1,850	8 June 2012
Investment loan	EUR	3M Euribor+3%	1,981	0	0	1,981	4 May 2012
Working capital loan	EUR	5%	0	984	0	984	1 August 2014
Factoring liability	EUR	EONIA+2.2%	1,176	0	0	1,176	29 September 2012
Total loans			17,460	8,082	167	25,709	

¹⁰ At the date of release of this report, the loan terms have been temporarily suspended until the completion of refinancing negotiations.

DETAILS OF LOANS AS AT 31 DECEMBER 2010:

EUR '000

Loan type	Base currency	Interest rate	Up to 1 year	1-2 years	3-... years	Total loan	Maturity date
Overdraft	EUR	6M Euribor+3.5%	2,435	0	0	2,435	28 February 2011
Overdraft	EUR	3.82%	1,814	0	0	1,814	30 September 2011
Overdraft	EUR	Bank base rate+2%	4,132	0	0	4,132	28 September 2011
Cash pool facility	EEK	Bank base rate	54	0	0	54	1 January 2011
Investment loan	EUR	6M Euribor+1.5%	1,710	1,710	3,846	7,266	11 January 2013
Investment loan	EUR	6M Euribor+4.4%	660	446	0	1,106	23 April 2012
Investment loan	EUR	4.1%	1,399	2,797	0	4,196	30 October 2013
Investment loan	EUR	5.0%	0	1,201	0	1,201	29 December 2012
Investment loan	EUR	6M Euribor+1%	48	332	0	380	18 September 2017
Investment loan	EUR	6M Euribor+1.2%	1,850	0	0	1,850	8 November 2011
Investment loan	EUR	3M Euribor+3%	0	1,981	0	1,981	4 May 2012
Working capital loan	EEK	5%	0	0	984	984	1 August 2014
Working capital loan	EUR	6.64%	176	0	0	176	25 September 2011
Factoring liability	EUR	2.2%+EONIA	2,849	0	0	2,849	30 September 2011
Total loans			17,127	8,467	4,830	30,424	

NOTE 20.

FINANCE AND OPERATING LEASES

THE GROUP AS A LESSEE

EUR '000	Note	2011	2010
Finance lease liability at beginning of year		4,183	6,857
Effect of business combinations		0	-738
Addition during the year	17	672	443
Principal payments made during the year		-1,921	-2,379
Finance lease liability at end of year of which		2,934	4,183
Payable in less than 1 year	19	1,670	2,105
Payable between 1 and 5 years	19	1,264	2,078
Base currency EUR/EEK		2,934	4,166
Base currency UAH		0	17
Interest rate for EUR based contracts ¹¹		2.0%-7.0%	3.0%-8.0%
Interest rate for UAH based contracts		–	10%-12%
Interest expense of the period		129	159
Periodicity of payments		Monthly	Monthly

¹¹ The base rate for floating rate contracts is generally 3 month or 6 month Euribor.

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

EUR '000	2011			2010		
Payable in	Minimum lease rentals ¹²	Interest	Present value of minimum lease rentals	Minimum lease rentals ¹²	Interest	Present value of minimum lease rentals
Less than 1 year	1,755	85	1,670	2,219	114	2,105
Between 1 and 5 years	1,329	65	1,264	2,149	71	2,078
Total	3,084	150	2,934	4,368	185	4,183

¹² 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 for:

EUR '000	2011	2010
Cars	709	658
Construction equipment	2,369	1,631
Premises	463	370
IT equipment	345	224
Total operating lease expenses	3,886	2,883

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

EUR '000		31 December 2011	31 December 2010
Within 1 year	Minimum amount of lease rentals payable	2,205	1,714
Between 1 and 5 years	Minimum amount of lease rentals payable	1,803	2,907

Lease contracts can be terminated before maturity if notice is given in accordance with the agreed terms and conditions.

NOTE 21. TRADE PAYABLES

EUR '000	Note	31 December 2011	31 December 2010
Trade payables		21,203	13,256
Accrued expenses related to contract work		6,158	4,071
Payables to related parties	38	42	102
Total short-term trade payables		27,403	17,429
Trade payables		199	215
Total long-term trade payables		199	215

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

NOTE 22. OTHER PAYABLES

EUR '000	31 December 2011	31 December 2010
Payables to employees	2,942	1,906
Taxes payable	1,864	1,428
Accrued expenses	122	111
Miscellaneous payables	2	1
Total short-term portion of other payables	4,930	3,446
Other payables	96	96
Total long-term portion of other payables	96	96

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

Accrued expenses include mainly accrued interest expense.

Taxes payable

EUR '000	31 December 2011	31 December 2010
Value added tax	637	448
Personal income tax	364	249
Social security tax	637	500
Other taxes	226	231
Total taxes payable	1,864	1,428

NOTE 23. DEFERRED INCOME

EUR '000	Note	31 December 2011	31 December 2010
Due to customers from contract work	28	10,535	3,874
Prepayments received for goods and services		52	551
Total deferred income		10,587	4,425

NOTE 24. PROVISIONS

EUR '000	31 December 2011	31 December 2010
Short-term provisions	485	1,160
Long-term provisions	841	423
Total provisions	1,326	1,583

CHANGES IN THE VALUE OF PROVISIONS

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

Warranties provisions (EUR '000)	2011	2010
Opening balance	1,329	1,063
Acquired/disposed of through business combinations	0	-140
Provisions used and reversed during the year	-368	-456
Provisions created during the year	231	862
Closing balance of which	1,192	1,329
Current portion	428	906
Non-current portion	764	423

Other provisions (EUR '000)	2011	2010
Opening balance	254	50
Provisions created during the year	34	204
Provisions used and reversed during the year	-154	0
Closing balance of which	134	254
Current portion	57	254
Non-current portion	77	0

A significant proportion of other provisions is made up of site rehabilitation provisions set up for rehabilitating the quarries used for the extraction of road construction materials.

NOTE 25. SHARE CAPITAL AND RESERVES

SHARE CAPITAL

EUR '000	2011	2010
At 1 January	19,657	19,657
At 31 December	19,657	19,657

In connection with Estonia's accession to the euro-zone on 1 January 2011 and based on amendments to the Estonian Commercial Code that took effect on 1 July 2010 and a resolution adopted by the annual general meeting of Nordecon AS in May 2011, share capital was converted from 307,567,280 Estonian kroons to 19,657,131.9 euros and the company adopted shares without par value. The share capital of Nordecon AS now consists of 30,756,728 ordinary registered shares with no par value. In the reporting period the number of shares did not change.

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

CAPITAL RESERVE

The Estonian Commercial Code requires companies to establish a capital reserve. Each year one twentieth of profit for the year has to be transferred to the capital reserve until it amounts to one tenth of share capital. The capital reserve may be used for covering losses and increasing share capital but it cannot be distributed to shareholders.

TRANSLATION RESERVE

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

DIVIDENDS

In 2011 no dividends were distributed.

NOTE 26. EARNINGS PER SHARE

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

	2011	2010
Loss for the period attributable to owners of the parent (EUR '000)	-5,304	-11,811
Weighted average number of shares (in thousands)	30,757	30,757
Basic earnings per share (EUR)	-0.17	-0.38
Diluted earnings per share (EUR)	-0.17	-0.38

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

NOTE 27.

OPERATING 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.

Preparation of segment reporting

The prices applied in inter-segment transactions do not differ significantly from market prices. The chief operating decision maker reviews inter-segment transactions separately and analyses their proportion in segment revenue. Respective figures are separately outlined on preparing segment reporting. Information on the proportion of revenue earned on transactions with the largest customer is disclosed in the *Credit risk* section of note 5.

The chief operating decision maker assesses the performance of an operating segment and 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.

In 2010 the parent of the Group, Nordecon AS, acted as a holding company and did not participate in the Group's operating activities. Therefore, it was not included in segment reporting. Accordingly, the adjustments made to adjust segment reporting to consolidated figures are mainly related to the parent company.

Since the beginning of the reporting year the parent, Nordecon AS, has been directly involved in operating activities. The company's figures, which have been included in segment reporting, have been allocated to segments based on which segment they relate to. The parent company's figures which are not directly related to any segment have not been allocated. Comparative data has not been restated because retrieving the data would have been time consuming and impractical (the internal structure of the companies that accounted for a significant proportion of operating activities has changed significantly as has their reporting to the chief operating decision maker).

2011

EUR '000	Buildings EU	Buildings UKR/BLR	Infrastructure EU	Other segments	Total
Total revenue	68,754	1,749	72,756	6,488	149,747
Inter-segment revenue	0	-146	-21	-4,122	-4,289
Revenue from external customers	68,754	1,603	72,735	2,366	145,458
Segment profit/loss	-318	-161	2,361	161	2,043
Depreciation and amortisation	-106	-49	-1,322	-712	-2,189
Other significant non-cash items including write-down of assets ¹³	0	-425	0	0	-425
Segment assets	66,308	9,904	21,449	4,029	101,690
Investments in equity-accounted investees	97	0	102	0	199
Capital expenditures	53	1	535	234	823

¹³ Includes write-down of goodwill.

2010

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
Revenue from external customers	45,026	5,245	47,082	1,864	99,217
Segment profit/loss	532	730	-1,024	-520	-282
Depreciation and amortisation	-148	-237	-1,603	-972	-2,960
Other significant non-cash items including write-down of assets ¹³	-301	0	0	0	-301
Segment assets	50,494	10,783	29,955	6,524	97,756
Investments in equity-accounted investees	99	0	0	0	99
Capital expenditures	43	41	468	0	552

¹³ Includes write-down of goodwill.

ADJUSTMENTS

EUR '000	2011	2010
Depreciation and amortisation for reportable and other segments	-2,189	-2,960
Adjustments	-197	-229
Consolidated depreciation and amortisation	-2,386	-3,189
Other significant non-cash items for reportable and other segments including write-down of assets	-425	-301
Adjustments	0	-110
Consolidated other significant non-cash items including write-down of assets	-425	-411
Capital expenditures for reportable and other segments	823	552
Consolidated capital expenditures for reportable segments	823	552
Investments in equity-accounted investees	199	99
Consolidated investments in equity-accounted investees	199	99

RECONCILIATION OF SEGMENT REVENUES

EUR '000	2011	2010
Total revenues for reportable segments	143,259	103,930
Revenue for other segments	6,488	3,799
Elimination of inter-segment revenues	-4,289	-8,512
Unallocated revenue	2,344	95
Total consolidated revenue	147,802	99,312

RECONCILIATION OF SEGMENT PROFIT

EUR '000	2011	2010
Total profit for reportable segments	1,882	238
Total profit/loss for other segments	161	-520
Elimination of inter-segment profits	-3	0
Unallocated losses	-1,846	-418
Total gross profit/loss	194	-700
Unallocated expenses:		
Distribution expenses	-317	-401
Administrative expenses	-4,641	-4,887
Other operating income/expenses	134	-2,987
Consolidated operating loss	-4,630	-8,975
Finance income	938	3,059
Finance expenses	-1,086	-6,338
Share of profit/loss of equity-accounted investees	100	-517
Consolidated loss before tax	-4,678	-12,771

RECONCILIATION OF SEGMENT ASSETS

EUR '000	31 December 2011	31 December 2010
Total assets for reportable segments	97,661	91,232
Investments in equity-accounted investees	199	99
Total assets for other segments	4,029	6,524
Inter-segment eliminations	-8,894	-6,067
Unallocated assets	8,586	3,453
Total consolidated assets	101,581	95,241

GEOGRAPHICAL INFORMATION

Revenue (EUR '000)	2011	2010
Estonia	142,684	92,629
Ukraine	439	2,384
Belarus	1,310	2,890
Finland	3,511	1,420
Inter-segment eliminations	-142	-11
Total revenue	147,802	99,312

Assets based on geographical location ¹⁴ (EUR '000)	2011	2010
Estonia	27,253	29,290
Ukraine	68	149
Lithuania	2	3
Belarus	4	12
Total assets	27,327	29,454

¹⁴ Comprises investment properties, property, plant and equipment and intangible assets.

NOTE 28.

CONSTRUCTION CONTRACTS IN PROGRESS

FINANCIAL INFORMATION ON THE GROUP'S CONSTRUCTION CONTRACTS IN PROGRESS AT THE REPORTING DATE

Construction contracts in progress from date of commencement of project (EUR '000)	31 December 2011	31 December 2010
Costs under stage of completion method	122,799	62,180
Estimated gross profit	-1,328	990
Revenue under stage of completion method	121,471	63,170
Progress billings	124,877	64,070
Difference between total progress billings and revenue recognised under stage of completion method	3,406	-900
Including due from customers (note 9)	7,129	2,974
Including due to customers (note 23)	10,535	3,874

At the reporting date, retentions under construction contracts totalled 2,544 thousand euros (31 December 2010: 1,121 thousand euros) (see note 9).

Potential impact of changes in estimates

A 5% increase or decrease in the estimated stage of completion of all construction contracts completed during the reporting period and all construction contracts in progress at the reporting date would have the following impact on the Group's revenue and gross profit for the period:

EUR '000	2011	2010	EUR '000	2011	2010
Change in revenue +5%	9,338	5,004	Change in revenue -5%	-15,844	-5,012
Change in gross profit	663	317	Change in gross profit	-1,302	-327

NOTE 29.

GOVERNMENT GRANTS

The Group participates in a pilot project aimed at demonstrating possibilities for using oil shale ash in road construction. The project is funded by the EU structural funds. The Group has received the following amounts:

Grants related to income (for covering operating expenses) EUR '000	2011	2010
Deferred income from government grants at 1 January	0	0
Received from EU structural funds	312	0
Recognised as income from government grants	312	0
Deferred income from government grants at 31 December	0	0

The amounts received have been recognised in the statement of comprehensive income within revenue. The costs covered with the grant have been recognised in the statement of comprehensive income within the cost of sales.

NOTE 30. COST OF SALES

EUR '000	2011	2010
Cost of materials, goods and services	133,212	83,818
Personnel expenses	12,003	11,793
Depreciation and amortisation expense (notes 17, 18)	2,203	2,895
Other expenses	190	1,506
Total cost of sales	147,608	100,012

In 2011 the Group employed, on average, 731 people (2010: 774 people).

NOTE 31. ADMINISTRATIVE EXPENSES

EUR '000	2011	2010
Cost of materials, goods and services	2,124	1,609
Personnel expenses	2,222	2,701
Other expenses	112	282
Depreciation and amortisation expense (notes 17, 18)	183	295
Total administrative expenses	4,641	4,887

NOTE 32. OTHER OPERATING INCOME AND EXPENSES

OTHER OPERATING INCOME

EUR '000	2011	2010
Gains on sale of property, plant and equipment and intangible assets	335	356
Gains on sale of real estate	221	18
Foreign exchange gain	139	47
Other income	111	399
Total other operating income	806	820

OTHER OPERATING EXPENSES

EUR '000	Note	2011	2010
Losses on sale and write-off of property, plant and equipment and intangible assets		84	25
Write-down of non-current assets held for sale	12	84	0
Write-down of goodwill	18	425	411
Net loss/gain on write-down and recovery of receivables	35	-8	2,561
Losses on sale of investment property		9	129
Foreign exchange losses		0	493
Membership fees		2	5
Other expenses		76	183
Total other operating expenses		672	3,807

NOTE 33. FINANCE INCOME AND EXPENSES

FINANCE INCOME

EUR '000	Note	2011	2010
Gain on acquisition/disposal of investments in subsidiaries	7	269	2,085
Foreign exchange gains		37	51
Interest income on loans		623	727
Other finance income		9	196
Total finance income		938	3,059

The gain on the acquisition of the non-controlling interest in the subsidiary Eurocon Ukraine TOV amounted to 269 thousand euros (2010: the gain on the disposal of the Latvian subsidiary amounted to 2,083 thousand euros). Interest income on loans comprises interest income on loans to related parties.

FINANCE EXPENSES

EUR '000	2011	2010
Interest expense	993	1,055
Other finance expenses	85	5,278
Foreign exchange losses	8	5
Total finance expenses	1,086	6,338

Other finance expenses for 2010 include losses incurred in connection with discontinuance of operations in Latvia (losses on write-down of financial assets and meeting guarantee commitments) of 2,613 thousand euros.

NOTE 34. INCOME TAX

EUR '000	%	2011	%	2010
Loss for the year		-4,708		-12,738
Income tax expense/income		-30		33
Loss before tax		-4,678		-12,771
Income tax using the tax rate of the parent company	0%	0	0%	0
Income tax in foreign jurisdictions	-0.64%	-30	0.26%	33
Total income tax expense/income		-30		33

Under effective tax laws, the earnings of companies operating in Estonia are not subject to income tax. Corporate income tax is levied on dividends distributed by companies registered in Estonia. The amount of tax payable is calculated as 21/79 of the net distribution.

NOTE 35.

FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

CREDIT RISK

At the reporting date, the Group's maximum credit risk exposure was as follows:

EUR '000	Note	2011	2010
Cash and cash equivalents	8	9,908	5,818
Trade receivables	9	14,783	15,319
Retentions receivable	9	2,544	1,121
Receivables from related parties	9	982	1,741
Loans to related parties	9	10,267	11,348
Other receivables	9	1,444	978
Due from customers for contract work	9	7,129	2,974
Total		47,057	39,299

Financial assets at the reporting date by geographical origin:

EUR '000	2011	2010
Estonia	46,614	29,354
Ukraine	161	8,605
Belarus	9	1,147
Lithuania	1	1
Finland	272	192
Total	47,057	39,299

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

EUR '000	31 December 2011		31 December 2010	
	Trade receivables	Impairment allowance	Trade receivables	Impairment allowance
Not past due	9,066	0	11,519	0
0-30 days past due	4,002	0	881	0
31-180 days past due	780	0	2,551	0
Over 180 days past due ¹⁵	3,725	-2,790	3,323	-2,955
Total	17,573	-2,790	18,274	-2,955

¹⁵ 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:

EUR '000	2011	2010
Allowance at 1 January	-2,955	-720
Impaired items recovered during the year	83	259
Impairment losses on receivables recognised during the year	-75	-2,821
Items considered irrecoverable during the year	157	327
Allowance at 31 December	-2,790	-2,955

In 2011, write-down, recovery and re-assessment of receivables resulted in a net gain of 8 thousand euros (2010: a net loss of 2,562 thousand euros). See also note 32.

LIQUIDITY RISK

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

EUR '000			31 December 2011			
Financial liability	Carrying amount	Contractual cash flows	Less than 1 year	1-2 years	3-5 years	Over 5 years
Overdraft liability ¹⁶ (note 19)	7,628	7,818	7,818	0	0	0
Bank and other loans (note 19)	16,905	17,667	9,126	8,372	169	0
Finance lease liabilities (note 20)	2,934	3,084	1,755	1,058	271	0
Factoring liability (note 19)	1,176	1,180	1,180	0	0	0
Trade payables (note 21)	27,602	27,602	27,403	199	0	0
Other payables (note 22)	3,162	3,162	3,066	96	0	0
Total	59,407	60,513	50,348	9,725	440	0

EUR '000			31 December 2010			
Financial liability	Carrying amount	Contractual cash flows	Less than 1 year	1-2 years	3-5 years	Over 5 years
Overdraft liability ¹⁶ (note 19)	8,381	8,546	8,546	0	0	0
Bank and other loans (note 19)	19,194	20,384	6,529	12,612	1,197	46
Finance lease liabilities (note 20)	4,183	4,369	2,219	1,991	159	0
Factoring liability (note 19)	2,849	2,858	2,858	0	0	0
Trade payables (note 21)	17,644	17,644	17,429	215	0	0
Other payables (note 22)	2,114	2,114	2,018	96	0	0
Total	54,365	55,915	39,599	14,914	1,356	46

¹⁶ Contractual cash flows have been determined based on the contract terms (interest rates and maturity dates) effective at the reporting date.

At the end of the reporting period the Group had access to the following overdraft facilities:

- an overdraft facility of 856 thousand euros with a fixed interest rate of 3.82% per year;
- an overdraft facility of 1,493 thousand euros with an interest rate of Euribor of the loan period + 3% per year;
- an overdraft facility of 710 thousand euros with an interest rate of the bank's base rate + 2.5% per year;
- an overdraft facility of 2,200 thousand euros with an interest rate of the bank's base rate + 2.5% per year.

In addition, to speed up the recovery of long-term trade receivables, the Group can use a factoring facility of up to 4,500 thousand euros.

Banks have provided the Group with construction-related guarantees of 36,118 thousand euros (2010: 26,301 thousand euros). According to management's estimates, at the reporting date the risk of realisation of the guarantees was low. During the period 2007-2011 no bank guarantees were called upon due to non-satisfaction of obligations related to construction activity.

CURRENCY RISK

At the reporting date, 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) was as follows:

2011

'000	EUR	LTL	USD	BYR	UAH
Cash and cash equivalents	9,883	3	0	95,234	160
Short-term receivables	33,526	31	1,251	0	1,638
Long-term receivables	2,504	0	0	0	0
Total	45,913	34	1,251	95,234	1,798
Current liabilities	49,275	2	0	1,782,702	1,455
Non-current liabilities	9,808	0	0	0	0
Total	59,083	2	0	1,782,702	1,455
Net exposure	-13,170	32	1,251	-1,687,468	343

2010

'000	EEK*	EUR	LTL	USD	BYR	UAH
Cash and cash equivalents	78,248	24	3	0	2,921,233	672
Short-term receivables	351,640	7,261	24	1,121	1,681,082	2,834
Long-term receivables	34,657	0	0	0	0	0
Total	464,545	7,285	27	1,121	4,602,315	3,506
Current liabilities	328,457	17,073	2	0	966,034	3,956
Non-current liabilities	4,862	15,377	0	0	0	0
Total	333,319	32,450	2	0	966,034	3,956
Net exposure	131,226	-25,165	25	1,121	3,636,281	-450

* As from 1 January 2011, the Estonian kroon was withdrawn from circulation. The official euro-kroon exchange rate of EUR 1 = EEK 15.6466 will remain valid for an indefinite period.

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

Date	Estonian kroon (EEK)	Lithuanian litas (LTL)	US dollar (USD)	Belarusian ruble (BYR)	Ukrainian hryvna (UAH)
1 euro (EUR) 31 December 2011	–	3.4528	1.2939	10 800.00	10.2981
1 euro (EUR) 31 December 2010	15.6466	3.4528	1.3362	4 009.64	10.6454

Potential impact of changes in estimates

The Group assessed how the weakening or strengthening of the Group's presentation currency, the euro, against the currencies of receivables and payables and cash and cash equivalents denominated in foreign currency in the Group's statement of financial position as at the end of the reporting period would have affected the Group's net result (profit or loss) for the year. Comparative figures are presented on the assumption that there was no currency risk between the Estonian kroon and euro at 31 December 2010 because the switchover from kroon to euro was carried out on 1 January 2011 at the exchange rate effective at the end of 2010. The analysis assumes that all other variables remain constant.

EUR '000	31 December 2011	31 December 2010
Strengthening of euro by 10%	-78	-156
Weakening of euro by 10%	95	190

INTEREST RATE RISK

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

EUR '000	31 December 2011	31 December 2010
Fixed rate financial instruments		
Financial assets (loans to related parties and legal persons) (notes 9 and 38)	10,267	11,348
Financial liabilities (note 19)	6,837	8,425
Floating rate financial instruments		
Financial assets (cash and cash equivalents) (note 8)	9,908	5,818
Financial liabilities (including finance lease liabilities) (note 19)	21,806	26,183
Net exposure	-11,898	-20,365

Variable components of interest rates as at the reporting date:

	31 December 2011	31 December 2010
3 month Euribor	1.356%	1.006%
6 month Euribor	1.617%	1.227%
EONIA	0.629%	0.817%
Bank's base rate	1.029%	1.023%

Potential impact of changes in estimates

An increase or a decrease of 100 basis points in the variable component of the interest rate at the reporting date would increase or reduce subsequent periods' interest expense on interest-bearing financial liabilities by 163 thousand euros (2010: 221 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:

EUR '000	Carrying amount	2011		2010
		Fair value	Carrying amount	Fair value
Cash and cash equivalents (note 8)	9,908	9,908	5,818	5,818
Trade receivables (note 9)	14,783	14,783	15,319	15,319
Retentions receivable (note 9)	2,544	2,544	1,121	1,121
Receivables from related parties (note 9)	982	982	1,741	1,741
Loans to related parties (note 9)	10,267	10,321	11,348	11,377
Other receivables (note 9)	1,444	1,444	979	979
Overdraft (note 19)	-7,628	-7,628	-8,381	-8,381
Bank and other loans (note 19)	-16,905	-16,930	-19,194	-19,208
Finance lease liabilities (note 19, 20)	-2,934	-2,934	-4,183	-4,183
Factoring liability (note 19)	-1,176	-1,176	-2,849	-2,849
Trade payables (note 21)	-27,560	-27,560	-17,541	-17,541
Payables to related parties (note 21)	-42	-42	-102	-102
Other payables (note 22)	-3,162	-3,162	-2,114	-2,114
Unrealised gain		29		15

The carrying amounts of the Group's current financial assets and liabilities do not differ significantly from their fair values. The carrying values of long-term floating rate assets and liabilities approximate their fair values because the floating component of the interest rate reflects the change in market interest rates.

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

Average market interest rate	2011	2010
Loans given in Estonia	7%	7%
Loans received in Estonia*	4.35%	4.5%

* According to the statistics of the Bank of Estonia (interest rates of loans granted to non-financial institutions).

NOTE 36.

CONTINGENT LIABILITIES

CONTINGENT INCOME TAX LIABILITY

EUR '000	31 December 2011	31 December 2010
Retained earnings	4,563	10,257
Contingent income tax liability	958	2,154
The amount that could be distributed as the net dividend	3,605	8,103

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 at 31 December 2011.

BANK GUARANTEES PROVIDED 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.

Bank guarantees provided:

At the reporting date, bank guarantees provided to customers for securing Group entities' commitments under construction contracts totalled 36,118 thousand euros (31 December 2010: 26,301 thousand euros). The amount has increased in connection with growth in construction operations.

Surety commitments assumed:

At the reporting date, the Group had agreed to stand surety to the commitments of its associates and non-Group third parties of 1,085 thousand euros (31 December 2010: 2,101 thousand euros).

NOTE 37.

ASSETS PLEDGED AS COLLATERAL

The Group has secured its financial liabilities with commercial pledges, mortgages and share pledges.

COMMERCIAL PLEDGES

At the reporting date, the parent and the subsidiaries had pledged their movable property under commercial pledges to the extent of 50,502 thousand euros (31 December 2010: 46,509 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 parent and subsidiaries amounted to 31,728 thousand euros (31 December 2010: 24,708 thousand euros). In the reporting period, immovable properties classified as inventories and investment properties and some items of real estate classified as property, plant and equipment were encumbered with a combined mortgage of 7,020 thousand euros.

Assets of the following classes have been mortgaged:

Line item in the statement of financial position (EUR '000)	2011	2010
Inventories (note 11)	23,302	23,302
Investment property (note 16)	639	639
Property, plant and equipment (land and buildings) (note 17)	767	767
Mortgages that cannot be linked to specific asset class	7,020	–
Total	31,728	24,708

SHARE PLEDGES

The Group has secured its investment loans by pledging its ordinary shares in the following subsidiaries: Eston Ehitus AS (98%) (2010: the same).

NOTE 38.

TRANSACTIONS WITH RELATED PARTIES

The Group considers parties to be 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's parent company AS Nordic Contractors and its shareholders
- Other companies of AS Nordic Contractors group
- Equity-accounted investees (associates and joint ventures) of Nordecon Group
- Members of the board and council of Nordecon AS, their close family members and companies connected with 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:

EUR '000	2011		2010	
Volume of transactions performed	Purchase	Sale	Purchase	Sale
AS Nordic Contractors	416	5	424	4
Companies of AS Nordic Contractors group	2	1,947	3	1,020
Equity-accounted investees	296	9	0	26
Companies related to a member of the council	0	0	76	111
Total	714	1,961	503	1,161

EUR '000	2011		2010	
Nature of transactions performed	Purchase	Sale	Purchase	Sale
Construction services	354	1,906	0	1,113
Lease and other services	360	55	503	48
Total	714	1,961	503	1,161

In 2011 the Group recognised interest income on loans to associates of 454 thousand euros (2010: 474 thousand euros), on loans to joint ventures of 108 thousand euros (2010: 86 thousand euros) and on loans to other related parties of 61 thousand euros (2010: 151 thousand euros).

Receivables from and liabilities to related parties at period-end (see notes 9 and 21)

EUR '000	31 December 2011		31 December 2010	
EUR '000	Receivables	Payables	Receivables	Payables
AS Nordic Contractors	1	42	0	97
AS Nordic Contractors group – receivables	1	0	667	0
Companies related to a member of the council	0	0	70	4
Associates – receivables	980	0	1,004	1
AS Nordic Contractors group – loans and interest	0	0	1,708	0
Associates – loans and interest	8,528	0	8,039	0
Joint ventures – loans and interest	1,739	0	1,601	0
Total	11,249	42	13,089	102

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

Loan and interest receivables from related parties:

EUR '000		2011				2010	
	Related party	Interest rate	Currency	Loan	Of which interest	Loan	Of which interest
Kastani Kinnisvara OÜ	Associate	10.0%	EEK	263	30	340	50
Sepavara OÜ	Associate	6.0%	EEK	203	30	175	21
Pigipada OÜ	Associate	5.0%	EEK	234	0	289	6
Technopolis-2 TOV	Associate	11.0%	EUR	967	306	839	226
V.I. Center TOV	Associate	6.0%	EUR	6,861	1,179	6,396	843
Unigate OÜ	Joint venture	8.0%	EUR	1,739	396	1,601	288
Arealis AS	Company of Nordic Contractors group	9.0%	EEK	0	0	1,708	110
Total				10,267	1,941	11,348	1,544
Of which current portion				8,150	1,515	9,354	1,236
Of which non-current portion				2,117	426	1,994	309

In the reporting period, the Group gave associates loans of 183 thousand euros (2010: 542 thousand euros). Loans granted to joint ventures totalled 30 thousand euros (2010: 264 thousand euros).

REMUNERATION OF THE MEMBERS OF THE BOARD AND COUNCIL

In 2011, the remuneration of the members of the board of Nordecon AS including social security charges totalled 316 thousand euros. The corresponding figure for 2010 was 199 thousand euros. The remuneration provided to the board has increased because in the comparative period the board had two members but in 2011 the number was four. The composition of the board changed in connection with the merger of two subsidiaries and the Group's parent at the end of 2010.

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 requires the approval of the council.

In 2011, the remuneration of the members of the council of Nordecon AS including social security charges totalled 92 thousand euros. In 2010, the corresponding figure was also 92 thousand euros.

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)

EUR '000	31 December 2011	31 December 2010
ASSETS		
Current assets		
Cash and cash equivalents	8,009	3,515
Trade and other receivables	29,226	26,782
Prepayments	1,312	625
Inventories	14,836	16,452
Total current assets	53,383	47,374
Non-current assets		
Investments in subsidiaries	10,875	10,875
Investments in associates	99	99
Investment property	1,637	1,647
Trade and other receivables	2,467	2,719
Property, plant and equipment	2,994	3,534
Intangible assets	8,409	8,510
Total non-current assets	26,481	27,384
TOTAL ASSETS	79,864	74,758
LIABILITIES		
Current liabilities		
Loans and borrowings	13,900	15,674
Trade payables	19,618	11,105
Taxes payable	941	647
Other payables	5,456	4,384
Deferred income	8,317	3,840
Provisions	212	520
Total current liabilities	48,444	36,170
Non-current liabilities		
Loans and borrowings	7,605	10,720
Other payables	158	178
Provisions	676	383
Total non-current liabilities	8,439	11,281
TOTAL LIABILITIES	56,883	47,451
EQUITY		
Share capital	19,657	19,657
Share premium ¹⁷	569	569
Statutory capital reserve	2,534	2,534
Retained earnings	221	4,547
TOTAL EQUITY	22,981	27,307
TOTAL LIABILITIES AND EQUITY	79,864	74,758

¹⁷ The share premium recognised in the parent company's statement of financial position was acquired on the company's merger with the subsidiary Nordecon Infra AS in 2010. The subsidiary had recognised share premium on an intra-Group business combination of entities under common control. Therefore, share premium was eliminated on preparing the consolidated financial statements.

STATEMENT OF COMPREHENSIVE INCOME (UNCONSOLIDATED)

EUR '000	2011	2010
Revenue	107,861	16,780
Cost of sales	-109,175	-15,833
Gross loss/profit	-1,314	947
Distribution expenses	-263	-244
Administrative expenses	-3,090	-2,005
Other operating income	315	25
Other operating expenses	-42	-49
Operating loss	-4,394	-1,326
Finance income	871	478
Finance expenses	-803	-3,783
Net finance income/expense	68	-3,305
Loss before income tax	-4,326	-4,631
Loss for the year	-4,326	-4,631
Total comprehensive expense for the year	-4,326	-4,631

STATEMENT OF CASH FLOWS (UNCONSOLIDATED)

EUR '000	2011	2010
Cash flows from operating activities		
Cash receipts from customers ¹⁸	137,953	39,463
Cash paid to suppliers ¹⁹	-123,404	-39,479
Cash paid to and for employees	-6,763	-2,759
VAT paid	-616	-539
Other operating expenses paid	0	-551
Net cash from/used in operating activities	7,170	-3,865
Cash flows from investing activities		
Proceeds from sale of property, plant and equipment and intangible assets	0	5
Proceeds from sale of investment property	0	32
Acquisition of subsidiaries	0	-39
Proceeds from disposal of subsidiaries	0	9
Cash received on merger with the subsidiaries	0	6,048
Loans granted	-342	-342
Repayment of loans granted	1,688	490
Interest received	192	163
Net cash from investing activities	1,538	6,366
Cash flows from financing activities		
Proceeds from loans received	1,910	5,429
Repayment of loans received	-4,669	-4,600
Payment of finance lease liabilities	-667	-206
Interest paid	-788	-694
Other payments	0	-3
Net cash used in financing activities	-4,214	-74
Net cash flow	4,494	2,427
Cash and cash equivalents at beginning of year	3,515	1,088
Increase in cash and cash equivalents	4,494	2,427
Cash and cash equivalents at end of year	8,009	3,515

¹⁸ Cash receipts from customers include the VAT paid by customers.

¹⁹ Cash paid to suppliers includes the VAT paid by the company to the state.

STATEMENT OF CHANGES IN EQUITY (UNCONSOLIDATED)

EUR '000	Share capital	Share premium	Statutory capital reserve	Retained earnings	Total
At 31 December 2009	19,657	0	1,639	-3,926	17,370
Loss for the year	0	0	0	-4,632	-4,632
Business combinations between entities under common control	0	569	895	13,105	14,569
At 31 December 2010	19,657	569	2,534	4,547	27,307
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
Adjusted unconsolidated equity at 31 December 2010	–	–	–	–	22,633
At 31 December 2010	19,657	569	2,534	4,547	27,307
Loss for the year	0	0	0	-4,326	-4,326
At 31 December 2011	19,657	569	2,534	221	22,981
Carrying amount of interests under control and significant influence	–	–	–	–	-10,974
Value of interests under control and significant influence under the equity method	–	–	–	–	4,488
Adjusted unconsolidated equity at 31 December 2011	–	–	–	–	16,495

STATEMENTS AND SIGNATURES OF GOVERNING BODIES

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 2011 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, the financial position, the financial performance, and the cash flows of the Group consisting of the parent company and other consolidated entities.

Jaano Vink

Chairman of the Board



30 April 2012

Avo Ambur

Member of the Board



30 April 2012

Marko Raudsik

Member of the Board



30 April 2012

Erkki Suurorg

Member of the Board



30 April 2012

COUNCIL:

The council has approved the annual report prepared by the management board, which consists of management's discussion and analysis and the consolidated financial statements and which has been appended the independent auditors' report and the profit allocation proposal, for presentation to the general meeting of the shareholders.

Toomas Luman

Chairman of the Council



30 April 2012

Alar Kroodo

Vice-chairman of the Council



30 April 2012

Andri Hõbemägi

Member of the Council



30 April 2012

Tiina Mõis

Member of the Council



30 April 2012

Meelis Milder

Member of the Council



30 April 2012

Ain Tromp

Member of the Council



30 April 2012



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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 2011, 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, as set out on pages 37 to 88.

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.

Auditors' 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 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, the consolidated financial position of the Company as at 31 December 2011, 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 10117
30 April 2012

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

	EUR '000
Retained earnings of prior years	10,257
Loss for 2011	-5,304
Other changes in retained earnings	-389
Total distributable profit at 31 December 2011	4,563

The board proposes that profit be retained.

Jaano Vink

Chairman of the Board

30 April 2012

Avo Ambur

Member of the Board

30 April 2012

Marko Raudsik

Member of the Board

30 April 2012

Erkki Suurorg

Member of the Board

30 April 2012



