Group annual report 2023

NORDECON

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Business name	Nordecon AS
Registration number	10099962
Address	Toompuiestee 35, 10149 Tallinn, Estonia
Domicile	Republic of Estonia
Telephone	+372 615 4400
E-mail	nordecon@nordecon.com
Corporate website	www.nordecon.com
Core business lines	Construction of residential and non-residential buildings (EMTAK 4120) Construction of roads and motorways (EMTAK 4211) Road maintenance (EMTAK 4211) Construction of utility projects for fluids (EMTAK 4221) Construction of water projects (EMTAK 4291) Construction of other civil engineering projects (EMTAK 4299)
Financial year	1 January 2023 – 31 December 2023
Council	Toomas Luman (chairman of the council), Andri Hõbemägi, Vello Kahro, Sandor Liive, Andre Luman
Board	Maret Tambek (acting chairman of the board), Priit Luman, Tarmo Pohlak
Auditor	KPMG Baltics OÜ

The company's consolidated financial statements in PDF format without European Single Electronic Format (ESEF) markups. The original document is submitted in machine-readable XHTML format to the Nasdaq Tallinn Stock Exchange and digitally signed (link: https://nasdaqbaltic.com/)

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Nordecon group at a glance

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

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

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

Besides Estonia, the companies of the Nordecon group operate in Sweden and Ukraine.

Nordecon AS is a member of the Estonian Association of Construction Entrepreneurs and the Estonian Chamber of Commerce and Industry. Nordecon AS has developed and implemented a quality management system that complies with ISO 9001, an environmental management system that complies with ISO 14001 and an occupational safety management system that complies with ISO 45001. Compliance with the standards has been certified by DNV.

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

VISION

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

MISSION

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

SHARED VALUES

Professionalism

As industry professionals, we apply appropriate construction techniques and technologies and observe generally accepted quality standards. Our people are results-oriented and go-ahead, and successfully combine their extensive industry experience with the opportunities provided by innovation.

Reliability

We are reliable partners – we always keep our promises. Together we can overcome any construction challenge and achieve the best possible results. We act openly, transparently and consistent with the best practices of the construction industry.

Teamwork

We value balanced teamwork and create the best environment for sharing knowledge and experience. We notice and recognise each employee's contribution and initiative.

Sustainability

We uphold responsibility and sustainability in the construction sector and contribute to the achievement of the sustainable development goals supported by society both through our own activities and in cooperation with other market participants.

Key figures for 2023

€278m Revenue (2022: €323m)	**(13.8)%** Revenue change, year on year (2022: 11.9%)	**€217m** Order book at the year-end (2022: €150m)
€277m Value of new contracts signed (2022: €163m)	**125** Projects delivered to customers (2022: 154)	**558** Employees (2022: 658)
6/0 Accidents/fatal injuries at work (incl. subcontractors) (2022: 17/0)	**0** Environmental pollution, discrimination and corruption incidents (2022: 0)	**€0.3m** Donations to community projects and charities (2022: €0.2m)

Awards and recognition

- **Young Civil Engineer of the Year 2023.** Jürgen Jõgeva, a project manager at Nordecon AS, was named Young Civil Engineer of the Year 2023 by the Estonian Association of Civil Engineers for his work as a construction site manager in phase 3 of the Medical Campus of Tartu University Hospital.
- **Innovation Project of the Year 2023.** A pilot project of Nordecon AS, which involved using artificial intelligence to assess the progress of works in the construction of the Vektor high-rise, won the Innovation Project of the Year 2023 award in a competition organised by the Digital Construction Cluster.
- **Finalists of professional competitions:**
    - Ain Rebane, a project manager at Embach Ehitus OÜ, and Rauno Rausk, a project manager at Nordecon AS, were among the finalists of the Builder of the Year 2023 competition organised by the Estonian Association of Construction Entrepreneurs for their outstanding work in phase 3 of the Medical Campus of Tartu University Hospital.
    - Rauno Rausk, a project manager at Nordecon AS, was among the finalists of the Civil Engineer of the Year 2023 competition organised by the Estonian Association of Civil Engineers for his outstanding work in phase 3 of the Medical Campus of Tartu University Hospital.
    - The Alma Tomingas House, a green building in Ülemiste City built by the consortium of Nordecon AS and Nordecon Betoon OÜ, was among the finalists in the 'Buildings' category at the Construction Project of the Year 2023 competition organised by the Estonian Association of Architectural and Consulting Engineering Companies.
    - The outdoor area around Terminal D in Tallinn Old City Harbour, an infrastructure project carried out by Nordecon AS, was among the finalists for the 'Infrastructure' category in the Construction Project of the Year 2023 competition organised by the Estonian Association of Architectural and Consulting Engineering Companies.
- **Best Company in Tartu of the Year 2023.** Embach Ehitus OÜ won the Fastest Growing Small Undertaking award at the Best Company in Tartu of the Year 2023 competition.
- **Silver Badge of the Ministry of Defence.** Peep Rebina a project manager, and Ülo Stallmeister, a construction site manager, at Nordecon AS were awarded the Silver Badge of the Estonian Ministry of Defence for their long-term contribution to the construction of national defence infrastructure.

- **Builder of the Year 2022.** Nordecon AS received the Builder of the Year 2022 award from the Estonian Centre for Defence Investment.
- **Innovation Partner of the Year 2022.** Tariston AS received the Innovation Partner of the Year 2022 award from the Estonian Centre for Defence Investment.
- **Best Heartfelt Deed.** The Children's Clinic building of Tartu University Hospital was recognised as one of the Best Heartfelt Deeds among projects carried out with EU support in a competition organised by the State Shared Service Centre. The Children's Hospital was built by Nordecon AS and Embach Ehitus OÜ as part of phase 3 of the Medical Campus of Tartu University Hospital.
- **Attractive Employer of the Year 2023.** Nordecon AS was ranked in the TOP 3 by engineering students in Instar's employer reputation survey.
- **Friend of Education of the Year 2023.** Nordecon AS, as one of the founders of the education programme 'Lae end' (Charge Yourself), which is aimed at promoting science, received the Friend of Education of the Year 2023 award from both the Estonian Ministry of Education and Research and the City of Tallinn.

Letter from chairman of the council

Looking back at developments in the construction sector in 2023, we have to admit that it was another unusual year in which construction companies had to navigate a complex and challenging economic landscape. For the second year in a row, everyone's confidence was shaken by a broad-based economic downturn and a general investment standstill was only prevented by a relatively strong labour market and the first signs of slowing inflation and a downward trend in interest rates.

Construction volumes react to changes in the economic environment with an average lag of three to four quarters. It is therefore not surprising that the expectations of moderate economic growth expressed at the end of 2023 will be reflected in construction revenues a year later – just as our current revenue decline reflects the slowdown in economic activity in 2022. In today's challenging environment, the time lag could be even longer. Adaptability in budgeting and the use of innovation and IT solutions in execution are therefore our key priorities.

As the largest general contractor in Estonia, we must maintain the ability to anticipate and respond quickly to market change, as we are highly exposed to changes in economic conditions. Declining demand in infrastructure construction has been a concern for years, and now that it is accompanied by lower investment activity by the private sector, the need for accurate resource planning, efficient scheduling and relentless adherence to quality standards has become even more pressing. I am confident that by following these principles we will be able to design a profitable portfolio of projects despite the rapidly changing economic environment.

However, this requires a very important skill – situational awareness. By having a real-time overview of the key aspects of each project, which is essential to ensure the smooth running of construction operations, we can make quick and informed decisions. This will have a positive impact not only on our bottom line, but also on the performance and satisfaction of our customers, suppliers and subcontractors. The application of artificial intelligence to the monitoring of the construction process brought us the first recognition in this field in 2023. Now it is important to apply what we have learned more widely and to create new applications that build on it. This is essential to strengthen our competitiveness.

Toomas Luman

Chairman of the Council

Group chief executive's letter

The year 2023 was marked by a decline in investment, increasing competition and a stabilisation of input prices in the construction market. In response to the market trends that emerged in 2022, there were also changes within the group, the most significant of which was the completion of the reorganisation of the Infrastructure segment.

Although input prices in the construction industry levelled off in the second half of 2023, this has not increased demand for construction services, as the budgets prepared in earlier periods are no longer sufficient to make the planned investments. Customers are trying to find ways to adjust their previously developed business plans or allocated funds to significantly higher input prices. As a result, pre-construction processes are becoming unusually long: the time between bidding and contract award, even in the case of public procurement, can be several months. This is also a factor that had a direct impact on the group's revenue and profit margins for the year.

Increasing competition is driving companies to constantly look for efficiencies and savings in their internal processes. Nordecon, as a long-standing champion of digital construction in Estonia, has seen the solution in the application of technology. We want to modernise the construction industry, efficiently assess and manage the progress of our construction projects and avoid recurring errors. In 2023, we were the first in Estonia to implement artificial intelligence-based technology in the construction of a high-rise building, using a platform developed by Buildots, a global technology leader.

In challenging times, it is particularly important to capitalise on our broad range of competencies and strengths across business lines and geographic markets. Two successful projects completed under the joint management of our general contracting companies deserve special mention: phase 3 of the Maarjamõisa Medical Campus of Tartu University Hospital in Estonia and a modular kindergarten in the city of Ovruch in Ukraine. Despite extremely difficult conditions, we will continue our activities in Ukraine, where the volume of work has returned to pre-war levels.

According to economic forecasts, the Estonian construction market is not expected to resume growth in the next few years. Against this backdrop, our order book, in which the public sector, particularly defence-related projects, continues to play an important role, gives us additional confidence for 2024.

Although 2023 was more successful for Nordecon than previous years, it had its challenging moments, which required more than usual commitment and time from our employees, for whom I have deep respect and gratitude. I am also grateful to our business partners for not losing faith in us during the difficult times and for continuing to work with us over the years. The many awards and nominations we have received in various competitions and from our customers also reflect the excellent work of our people and companies.

Maret Tambek

Acting Chairman of the Board

Directors' report

Strategic agenda for 2023–2027

Business lines and markets

- The group will grow, mostly organically, with a focus on efficient use of resources.
- In Estonia, we will operate in the building and infrastructure construction as well as housing development segments.
- In foreign markets (Ukraine, Sweden), we will compete as a general contractor and a provider of concrete works.

Activities for implementing the strategy

- We will provide our people with a modern and inspiring work environment and a motivation system that fosters collaboration and initiative.
- We will improve our profitability by planning and managing our design and construction operations more precisely.
- We will streamline our work and decision-making processes by implementing modern digital solutions.
- We will maintain the order books of our different operating segments in balance.
- We will set our sustainable development goals and adopt an action plan to achieve them.

Financial targets

- Revenue will grow by at least 5% per year.
- Operating margin for the year will be consistently above 3%.
- Operating profit per employee will increase to at least €10 thousand per year.
- We will deliver a strong dividend yield for Nordecon's shareholders.

Market trends

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

Estonian construction market in 2023

In 2023, Estonian construction companies' output (construction volume) decreased by 6% overall and by 7% in the Estonian market. According to preliminary data from Statistics Estonia, Estonian construction companies' total output in Estonia and abroad amounted to €4.1 billion, the figure comprising building construction of €2.6 billion and infrastructure construction of €1.5 billion. Building construction decreased by 11%, while infrastructure construction (incl. roads, port facilities, pipelines, telecommunications and power lines) grew by 4% compared with 2022. In building construction, both new build and rehabilitation and reconstruction volumes decreased. The growth in infrastructure construction was mainly driven by rehabilitation and reconstruction. Foreign operations, which accounted for 7% of Estonian construction companies' total output, grew by 18% year on year.

According to the Estonian Building Registry, 8,424 new dwellings received a permit of use in 2023, 29% more than in 2022. Most new dwellings (68%) were in apartment buildings. Similar to the previous year, the most popular type of residential building was a three- to five-floor apartment building. Most of the new dwellings were located in Tallinn, followed by the surrounding municipalities and Tartu county.

Demand for new dwellings fell for the third year in a row. The number of construction permits issued for dwellings was 5,612, roughly a fifth smaller than in 2022. The number of new non-residential buildings that received a permit of use was 1,036 and their total usable area was 818,600 square metres. Growth was the strongest for industrial, warehouse and office buildings. Both the area and volume of non-residential buildings that received a permit of use increased compared with 2022.

Outlooks of the group's geographical markets

Estonia

Processes and developments characterising the Estonian construction market:

- The construction market has seen rapid change in recent years. According to Statistics Estonia, the construction price index has increased for two years in a row. In 2023, the construction price index rose by 6.1% compared to 2022, reflecting increases of 7.0% for labour, 9.8% for the use of machinery and 5.2% for materials. Despite the rise in the construction price index, input prices have more or less stabilised as a result of weakening demand, but not enough to trigger a new increase in demand as previously planned resources, both public and private, are no longer sufficient to make the planned investments. Customers are looking for ways to adjust their business plans to the new level of input prices, which is significantly prolonging the pre-construction process. The market continues to be strongly influenced by public investment, which will generally decline in 2024. Due to the current security situation, investment by the Estonian Centre for Defence Investment will remain at the level of previous years. Investment by the Estonian Transport Administration, on the other hand, is expected to continue to decline, which will put strong pressure on companies in the infrastructure and asphalt concrete production segments, where market supply already significantly exceeds demand. Contracted work for the long-awaited Rail Baltica project will increase, which should partly offset the sharp decline in the road construction and rehabilitation work procured by the Transport Administration. Against the backdrop of a general economic downturn, the construction market is expected to contract in 2024.
- The slowdown in economic activity and the decline in construction volumes have intensified competition in both building and infrastructure construction. While competition in infrastructure construction has been fierce for a number of years due to the decline in volumes, competition in building construction has also increased significantly over the past year. As a result of high inflation and soaring interest rates, investment confidence has plummeted, leading, among other things, to a significant decline in housing construction. At the same time, labour costs have risen rapidly, putting upward pressure on construction prices in an environment of falling demand. It is difficult to predict how the situation will affect demand for construction services in the long term, but in the short term demand will continue to decline.

- There is often a striking contrast between the strict terms of public construction contracts, with their numerous obligations, severe sanctions, various financial guarantee commitments, etc., and the modest eligibility criteria. While lenient qualification requirements and the precondition of making a low bid have made it relatively easy for an increasing number of builders to win a contract, they have also heightened the financial, completion delay and quality risks taken by customers during the execution of the contract and the subsequent warranty period.
- The shortage of skilled and qualified staff (incl. project and site managers) has not decreased in the long term and the sector continues to need additional competent professionals.

Ukraine

In Ukraine, we are mainly involved in general contracting and project management in the segment of building construction. In addition, we have investments in two real estate projects located in Ukraine. Due to the military conflict between Russia and Ukraine and the uncertainty as to when it will end, it is not possible to estimate how the situation in the Ukrainian economy and construction market will develop in 2024. At the same time, there is an increasing focus on restoring war-damaged buildings and infrastructure, and on strengthening them against military action.

Sweden

In the Swedish market, we are involved in the construction of residential and non-residential buildings, mainly in the central part of the country. Rapid inflation and rising interest rates have weakened demand in the Swedish construction market. In 2024, the Swedish economy is expected to stabilise and grow slightly in the second half of the year. In a challenging market environment, we will focus on finding new opportunities while critically assessing potential risks.

Description of the main risks

Business risks

The main factors affecting our business volumes and profit margins are competition in the construction market and changes in demand for construction services. Demand in both the infrastructure and building construction segments continues to be strongly influenced by the level of public investment.

Bid prices are under strong competitive pressure in both infrastructure and building construction and bidders increasingly include not only rival general contractors but also former subcontractors. This is mainly attributable to the central and local governments' policy to keep the eligibility requirements for public contracts low. As a result, quality and timely completion are sometimes sacrificed to the lowest price. We acknowledge the risks involved in performing contracts signed in an environment of stiff competition and economic uncertainty. In setting prices in such a situation, we strive to strike a reasonable balance between contract performance risks and tight cost control.

Our action plan includes flexible allocation of resources to find more profitable contracts and execute them effectively. According to our business model, Nordecon operates in all segments of the construction market. Therefore, we are somewhat better positioned than companies that operate in only one narrow segment.

The group's business is influenced by seasonal changes in weather conditions, which have the strongest impact on infrastructure construction, where a lot of work is done outdoors (road construction, earthworks, etc.). Our strategy is to counteract the seasonality of the infrastructure business with building construction, which is less exposed to seasonal fluctuations. Our long-term goal is to be flexible and maintain a relative balance between our two business segments, although the decline in public investment has made this difficult. Where possible, our entities implement technical solutions that help them operate efficiently in changing conditions. A key challenge for the construction sector is low productivity, which is attributable to lack of time in the preparation and planning phases and outdated process management methods. The group will continue to invest in digital solutions that enable more accurate planning and management of construction processes. In 2023, a pilot project was launched to manage the construction process using artificial intelligence.

Operational risks

To manage their daily construction risks, group companies purchase contractors' all risks insurance. Depending on the nature of the project and the requests of the customer, both general frame agreements and special, project-specific insurance contracts are used. In addition, subcontractors are generally required to secure the performance of their obligations with a bank guarantee provided to a group company or the group retains part of the amount due until the contract has been completed. To remedy construction deficiencies which may be detected during the warranty period, group companies create warranty provisions based on their historical experience. The group's warranty provisions (incl. current and non-current) at 31 December 2023 amounted to €1,880 thousand (31 December 2022: €1,604 thousand).

In addition to managing the risks directly related to construction operations, we have in recent years paid considerable attention to mitigating the risks associated with pre-construction activities. In particular, this applies to the bidding process, i.e. compliance with the procurement conditions and budgeting, and the negotiation of contract terms. Errors made in the planning phase are usually irreversible and, in a situation where the price of a construction contract is fixed, can result in direct financial loss.

Financial risks

Credit risk

The group did not have any credit losses during the financial year. A year earlier, credit losses amounted to €319 thousand. The overall credit risk exposure of the portfolio of receivables is low because the solvency of prospective customers is evaluated, the share of public sector customers is large and customers' payment behaviour is continuously monitored. The main indicator of the realisation of credit risk is a settlement default that exceeds 180 days along with no activity on the part of the debtor that would confirm the intent to settle.

Liquidity risk

The group's liquidity risk has decreased, but exposure to liquidity risk still remains higher than normal. At the reporting date, the group's current ratio was 0.95 (31 December 2022: 0.88). The key factors that influence the current ratio are the classification of the group's loans to its Ukrainian associate as non-current and the banks' general policy not to refinance interest-bearing liabilities (particularly overdrafts) for a period exceeding 12 months.

As the political and economic situation in Ukraine continues to be difficult, we believe that the group's Ukrainian investment properties cannot be realised in the short term. Accordingly, the receivables related to the loans provided to the Ukrainian associate of €8,146 thousand were classified as non-current at the reporting date.

For better cash flow management, we use overdraft facilities by which we counter the mismatch between the settlement terms agreed with customers and subcontractors. Under IFRS EU, borrowings have to be classified into current and non-current based on contract terms in force at the reporting date. The group's short-term borrowings at 31 December 2023 amounted to €10,188 thousand (31 December 2022: €17,193 thousand). A major share of short-term borrowings was made up of overdrafts of €5,372 thousand. According to the group's assessment, it is likely that the overdrafts will be extended after the reporting date.

The group's cash and cash equivalents as at the reporting date amounted to €11,892 thousand (31 December 2022: €7,238 thousand).

Interest rate risk

The group's interest-bearing liabilities to banks have both fixed and floating interest rates. Lease liabilities have mainly floating interest rates. The base rate for most floating-rate contracts is EURIBOR. At 31 December 2023, the group had interest-bearing liabilities of €18,751 thousand (31 December 2022: €23,504 thousand). Interest-bearing liabilities decreased by €4,753 thousand compared to the previous year and thus the group's interest expense did not increase significantly despite the overall increase in interest rates. Interest expense for 2023 was €1,036 thousand (2022: €929 thousand).

The main source of interest rate risk is a potential rise in the base rates of floating interest rates. In the light of the group's relatively heavy loan burden, this would significantly increase interest expense, which would have an adverse impact on profit. We mitigate the risk by pursuing a policy of entering, where possible, into fixed-rate contracts when the market interest rates are low. As regards loan products offered by banks, observance of the policy has proved difficult and most contracts have floating interest rates.

Currency risk

As a rule, the prices of construction contracts and subcontracts are fixed in the currency of the host country, i.e. in the euro (€), the Ukrainian hryvnia (UAH) and the Swedish krona (SEK).

Due to Russia's military invasion of Ukraine in February 2022 and Ukraine's previous political and economic instability, the exchange rate of the hryvnia has been volatile. In 2023, the exchange rate of the hryvnia against the euro weakened by approximately 8%. As a result, the group's Ukrainian subsidiaries, which have to translate their euro-denominated loans into the local currency, recognised a foreign exchange loss of €480 thousand (2022: a loss of €1,416 thousand). Exchange gains and losses on financial instruments are recognised in profit or loss within finance income and finance costs, respectively. The translation of receivables and liabilities from operating activities did not give rise to any exchange gains or losses.

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

The exchange rate of the Swedish krona against the euro remained stable in 2023 and the translation of the euro-denominated loan granted to the group's Swedish subsidiary into the local currency did not result in any exchange gain or loss (2022: a loss of €112 thousand). Exchange gains and losses on financial instruments are recognised in profit or loss within finance income and finance costs, respectively. The translation of receivables and liabilities from operating activities gave rise to an exchange loss of €37 thousand (2022: no exchange gain or loss was recognised).

The group has not acquired derivatives to hedge currency risk.

Employee and work environment risks

Finding a permanent, skilled and qualified workforce is a challenge for the entire construction industry and one of the most important factors influencing business performance. To strengthen Nordecon's reputation as an employer and to ensure that we have employees in the future, we work with educational institutions. Continuous employee development is essential and one of our acknowledged priorities. We also rely on our subcontractors' ability to find employees with the necessary skills and qualifications.

We seek to minimise the risks to the health and safety of people working on our construction sites, including our own teams and those of our subcontractors, by applying the measures required by law and our management systems. Subcontractors are responsible for ensuring the safety of their operations and employees, while our role is to build relationships and create conditions that enable and encourage compliance with safety regulations.

Environmental risks

Construction activities have a direct impact on wildlife, soil and the physical environment. In carrying out our operations, we therefore strive to protect the surrounding environment and nature as much as possible. The group's assets and operations with the greatest environmental impact and thus the highest environmental risks are asphalt plants, quarries used for the extraction of construction materials and road construction operations. The main environmental protection measures at construction sites include efficient use of materials and proper waste management. Excessive waste, leaks, spills, pollution, destruction of wildlife and other environmental damage is prevented by complying with legal and regulatory requirements. All of the group's construction companies have implemented environmental management standard ISO 14001.

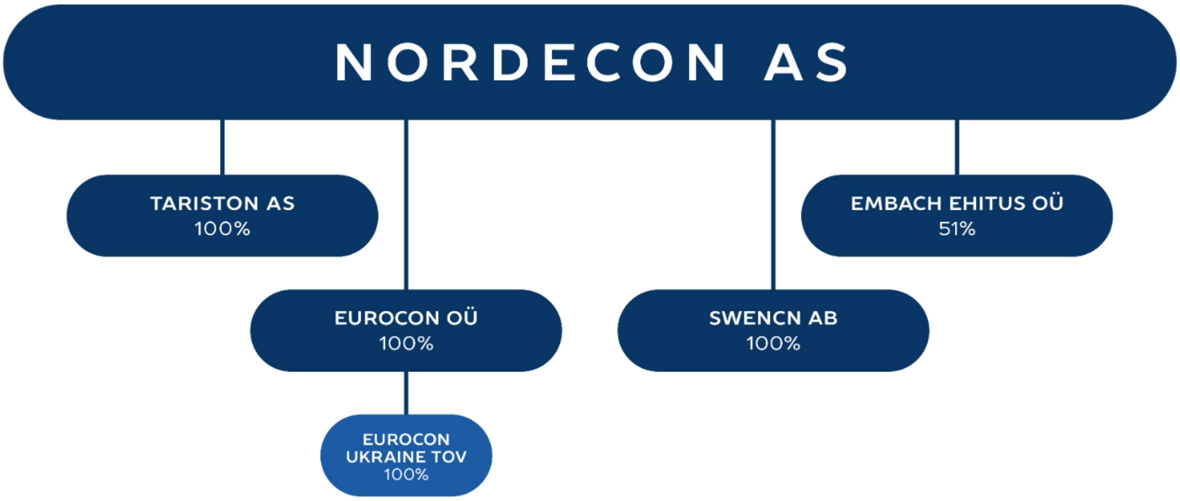
Corruption and ethical risks

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

Business and financial review

Group structure

The group's structure at 31 December 2023, including interests in subsidiaries and associates*



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

Significant changes in group structure

Merger of Kaurits OÜ with Tariston AS

At the beginning of April 2023, Nordecon AS decided to merge two wholly owned subsidiaries, Tariston AS and Kaurits OÜ. The purpose of merging the two successful infrastructure construction companies with a good long-term track record was to complete the group's strategic plan to consolidate all infrastructure construction resources, competencies and operations into a single entity. The merger was legally completed on 7 July 2023 but for accounting purposes the date of the merger (the acquisition date) was 1 January 2023.

Sale of the investment in Nordecon Betoon OÜ

An extraordinary general meeting of Nordecon AS held on 29 November 2023 resolved to sell Nordecon AS's 52% stake in Nordecon Betoon OÜ. The transaction was finalised in early December 2023. With the sale of its investment in Nordecon Betoon OÜ, the Nordecon group has profitably exited the concrete work market, where it competed as a subcontractor, and will focus on its core services: general contracting and construction design management. With the transaction, the group also withdrew from the Finnish market, where it had been operating through Nordecon Betoon OÜ's subsidiary NOBE Rakennus OY. The revenues, expenses and cash flows of the divested companies, Nordecon Betoon OÜ and NOBE Rakennus OY, were included in the group's results until 30 November 2023 (see note 23).

The group's operations in Estonia and foreign markets

Estonia

There were no changes in our Estonian business operations during the period under review. The sale of the subsidiary Nordecon Betoon OÜ in early December did not have a significant impact on the group's business in the reporting period. The group was involved in building and infrastructure construction, providing services in practically all market subsegments. A significant share of the core business was conducted by the parent, Nordecon AS, which is also a holding company for the group's larger subsidiaries. In addition to the parent, construction management services were rendered by the subsidiaries Tariston AS, Embach Ehitus OÜ and Nordecon Betoon OÜ.

The group also continued its other main activities: property development (Embach Ehitus OÜ), rental of heavy construction machinery and equipment and provision of regional road maintenance services (Tariston AS).

The group did not enter any new operating segments in Estonia.

Foreign markets

Ukraine

Although Russia's military invasion of Ukraine on 24 February 2022 has severely affected the operations of our Ukrainian subsidiary Eurocon Ukraine TOV, our business volumes in Ukraine recovered to pre-war levels in 2023. The activities of Eurocon Ukraine TOV are not material to the group's revenue, profit and assets. The group has investments in two real estate projects in Ukraine but the start of development activities has been postponed due to the war. The properties have not been damaged in the military conflict and the group is in control of the land.

Finland

The group's subsidiary Nordecon Betoon OÜ and its Finnish subsidiary NOBE Rakennus OY continued to provide subcontracting services in the concrete work segment in Finland. The economic downturn in Finland also affected the group: in 2023 business volumes dropped significantly compared to 2022.

Sweden

There were no changes in our Swedish operations during the period under review. SweNCN AB did not have any construction projects in progress at 31 December 2023 but the company is seeking new opportunities to continue its business in the Swedish market.

Performance by geographical market

Revenue generated outside Estonia, mostly in Ukraine and Finland, accounted for approximately 3% of the group's total revenue in 2023. Despite the ongoing war, Nordecon's construction volumes in Ukraine have increased. In 2023, we completed and delivered construction phases 1 and 2 of a modular kindergarten with a bomb shelter in the city of Ovruch. Work continues on the reconstruction of substations and the installation of their physical protection. Finnish revenues, which mainly include subcontracting revenue from the provision of concrete works, have decreased. Nordecon did not generate any revenue and had no ongoing construction contracts in the Swedish market. The group operates on a project basis in Latvia and Lithuania, but in the period under review Lithuania accounted for less than 1% of the group's revenue and the group did not earn any revenue in Latvia.

	2023	2022	2021	2020	2019
Estonia	97%	96%	94%	82%	89%
Ukraine	2%	0%	2%	1%	2%
Finland	1%	2%	3%	6%	4%
Sweden	0%	0%	0%	11%	5%
Lithuania	0%	1%	0%	0%	0%
Latvia	0%	1%	1%	0%	0%

Performance by business line

Segment revenues

We strive to maintain the revenues of our two main operating segments (Buildings and Infrastructure) in balance, if this is permitted by market conditions, because this helps diversify risks and provides better opportunities to continue construction operations in more challenging market conditions where the volumes of one subsegment decline sharply while the volumes of another may grow more rapidly.

The group's revenue for 2023 was €278,382 thousand, roughly 14% lower than in 2022, when the figure was €322,860 thousand. The Buildings segment generated revenue of €211,082 thousand and the Infrastructure segment revenue of €67,233 thousand. The corresponding figures for 2022 were €260,585 thousand and €62,048 thousand (see note 24). The overall revenue decrease was expected and is attributable to market contraction. Revenue declined by 19% in the Buildings segment, but increased by 8% in the Infrastructure segment. Although the group was successful in winning new contracts in 2023, these did not yet affect revenue for the period. High construction prices, mainly due to increased labour costs, combined with high interest rates and low demand, have delayed the start of development projects. The time lag between bidding and contract award can be several months, even in the case of public procurement, which also affected the group's revenue for the year. Investment by the Transport Administration, one of the main customers of the Infrastructure segment, have decreased sharply, and the segment's revenue growth is mainly driven by renewable energy projects and the pick-up in work on Rail Baltica.

Revenue by operating segment*	2023	2022	2021	2020	2019
Buildings	76%	81%	75%	72%	70%
Infrastructure	24%	19%	25%	28%	30%

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

Subsegment revenues

In the Buildings segment, the largest contributor is still the public buildings subsegment, with revenue for 2023 roughly at the same level as in 2022. In other subsegments, revenues have contracted significantly: by 40% in the industrial and warehouse facilities subsegment, by 21% in the commercial buildings subsegment and by 22% in the apartment buildings subsegment.

The period's largest projects in the public buildings subsegment were the construction of the main building of the Estonian Internal Security Service in Tallinn, the design and construction of storage facilities and utility networks for the Centre for Defence Investment in Harju county, the construction of the building and outdoor premises of the Karlsson kindergarten in Viljandi and the construction of the Viljandi Rescue Station. The extension of the Maarjamõisa Medical Campus of Tartu University Hospital (phase 3) was completed in 2023 after a construction period of almost three years.

The apartment buildings subsegment generates most of its revenue from the construction of apartment buildings for third parties. During the period, the largest projects were the design and construction of the Luccaranna and Kastani Kodud housing estates near Tallinn. Revenue from the group's own development operations amounted to €10,273 thousand (2022: €11,459 thousand). Nordecon is continuing the development of the Mõisavahe Kodu housing estate (https://moisavahe.ee) and the construction of the Emajõe Residents housing estate, which is situated near the city centre on the banks of the Emajõgi river (https://emajoeresidents.ee) in Tartu. The group is also proceeding with the design and preconstruction activities for the Seileri Kvartal housing estate in Pärnu (https://seileri.ee/en). In carrying out our own development activities, we carefully monitor potential risks in the housing development market.

The largest projects in the commercial buildings subsegment were the construction of the Vektor commercial and residential complex and the Ahtri 4 and Kopli 68A office buildings in Tallinn, the design and construction of the Männiku commercial building in the Kandiküla district of Tartu, and the construction of a biopharmaceutical manufacturing facility for Icosagen AS in the municipality of Kambja.

The largest projects under construction in the industrial and warehouse facilities subsegment were a production facility for E-Piim in Paide, a production and office building for Harju Elekter AS in Hüüru, and a production and office building in Maardu.

Revenue breakdown in the Buildings segment	2023	2022	2021	2020	2019
Public buildings	37%	30%	28%	37%	29%
Apartment buildings	27%	28%	29%	28%	27%
Commercial buildings	23%	24%	29%	23%	36%
Industrial and warehouse facilities	13%	18%	14%	12%	8%

The largest revenue contributor in the Infrastructure segment is still road construction and maintenance although in 2023 its revenue decreased by around 17%. During the period, a major share of the subsegment's revenue resulted from the construction of the Tagadi ecoduct (a wildlife crossing) on the Rail Baltica route, the construction of the Neanurme–Pikknurme 2+1 road section of the Tallinn–Tartu–Võru–Luhamaa road in Jõgeva county and the reconstruction of the Hageri–Kohila road section in Harju county. The group also provides road maintenance services in Järva county.

The amount and share of revenue generated by the other engineering subsegment, which is currently involved in the construction of two wind farms (Tootsi-Sopi and Aidu) in Estonia, increased significantly compared with 2022. The revenue of the environmental engineering subsegment includes revenue from the design and construction of the Erra river and the Kiviõli ditch remediation projects.

Revenue breakdown in the Infrastructure segment	2023	2022	2021	2020	2019
Road construction and maintenance	63%	75%	87%	74%	78%
Other engineering	30%	20%	6%	21%	18%
Environmental engineering	7%	0%	3%	1%	3%
Specialist engineering (incl. hydraulic engineering)	0%	5%	4%	4%	1%

Selection of completed projects

Major projects completed by group companies in different subsegments in 2023*:

Brief description of the project	Group company	Customer	Subsegment
E-Piim production building	Nordecon AS	E-Piim Tootmine AS	Industrial and warehouse facilities
Office building at Ahtri 4	Nordecon AS	Roseni Kinnisvara OÜ	Commercial buildings
Storage facilities and utility networks for the Centre for Defence Investment	Nordecon AS	Estonian Centre for Defence Investment	Public buildings
Phase 3 of the Maarjamõisa Medical Campus of Tartu University Hospital	Nordecon AS, Embach Ehitus OÜ	Tartu University Hospital Foundation	Public buildings
Phases 1 and 2 of a modular kindergarten in Ovruch, Ukraine	Nordecon AS, Eurocon Ukraine TOV	ESTDEV (Estonian Centre for International Development)	Public buildings
Warehouse in Angerja tee	Nordecon Betoon OÜ	Harju Elekter AS	Industrial and warehouse facilities
Phase 2 of Kastani Kodud housing estate	Nordecon Betoon OÜ	Kastanikodud OÜ	Apartment buildings
Phase 3 of Luccaranna housing estate	Nordecon Betoon OÜ	Luccaranna OÜ (Invego OÜ)	Apartment buildings
Saarde wind farm	Nordecon Betoon OÜ	Tuulepealne Maa OÜ (Utilitas AS)	Other engineering
Aidu wind farm	Nordecon Betoon OÜ	Dirkshof Eesti OÜ	Other engineering
Apartment building at Siili 4	Embach Ehitus OÜ	Own development	Apartment buildings
Karlsson kindergarten in Viljandi	Embach Ehitus OÜ	Viljandi City Government	Public buildings
Männiku commercial building	Embach Ehitus OÜ	Kaarsilla Kinnisvara OÜ	Commercial buildings
Icosagen office and laboratory building	Embach Ehitus OÜ	ICO Park OÜ	Commercial buildings
Viljandi Rescue Station	Embach Ehitus OÜ	Riigi Kinnisvara AS	Public buildings
Reconstruction of the Hageri–Kohila section of national road no. 11220 Kernu–Kohila, km 8.7–16.0	Tariston AS	Transport Administration	Road construction and maintenance
Rehabilitation of national road no. 2 Tallinn–Tartu–Võru–Luhamaa, km 25.85–40.014	Tariston AS	Transport Administration	Road construction and maintenance
Construction of Tarbja collector road and Tarbja bridge	Tariston AS	Transport Administration	Road construction and maintenance

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

Gallery of selected completed projects

E-Piim production building (Nordecon AS, photo: Tõnu Tunnel)

Ahtri 4 office building (Nordecon AS, photo: Oleg Hartshenko)

Phase 3 of the Maarjamõisa Medical Campus of Tartu University Hospital (Nordecon AS, Embach Ehitus OÜ, photo: Timo Arbeiter)

Phases 1–2 of a modular kindergarten in Ovruch (Nordecon AS, Eurocon Ukraine TOV, photo: ESTDEV)

Warehouse in Angerja tee (Nordecon Betoon OÜ, photo: Kristian Kruuser)

Phase 2 of Kastani Kodud housing estate (Nordecon Betoon OÜ, photo: Kristian Kruuser)

Aidu wind farm (Nordecon Betoon OÜ, photo: Kristian Kruuser)

Siili 4 apartment building (Embach Ehitus OÜ, photo: Timo Arbeiter)

Karlsson kindergarten in Viljandi (Embach Ehitus OÜ, photo: Timo Arbeiter)

Männiku commercial building (Embach Ehitus OÜ, photo: Timo Arbeiter)

Icosagen office and lab building (Embach Ehitus OÜ, photo: Timo Arbeiter)

Construction of Tarbja collector road and Tarbja bridge (Tariston AS, photo: Marleen Võsa)

Financial review*

Financial performance

The group's profitability has improved in challenging market conditions. Nordecon ended 2023 with a gross profit of €10,326 thousand (2022: €8,495 thousand) and a gross margin of 3.7% (2022: 2.6%). Profitability improved for both operating segments. The gross margin of the Buildings segment was 4.4% (2022: 4.1%) and that of the Infrastructure segment was 3.1% (2022: (2.4)%). The restructuring of the group's Infrastructure segment, which started in 2022 and was completed in the first half of 2023, has had a visible positive impact. The elimination of duplication has improved both resource efficiency and profitability. Due to the surge in construction prices in recent years, the Buildings segment recorded a one-off loss on a long-term contract signed in 2019.

The group's administrative expenses for 2023 were €8,915 thousand. Compared with 2022, administrative expenses grew by 22% (2022: €7,287 thousand) due to growth in staff costs and an overall rise in the prices of goods and services (see note 29). The ratio of administrative expenses to revenue (12 months rolling) was 3.2% (2022: 2.3%).

The group earned an operating profit of €556 thousand in 2023 (2022: €2,305 thousand). EBITDA amounted to €3,938 thousand and EBITDA margin was 1.4% (2022: €5,766 thousand and 1.8%). Operating profit and EBITDA for the comparative period were influenced by other income of €1,560 thousand, recognised after the approval of the restructuring plan of SweNCN AB.

The group's finance income and costs resulted in net finance income of €2,096 thousand (2022: net finance costs of €3,482 thousand). The sale of the group's subsidiary Nordecon Betoon OÜ had the strongest effect on finance income. Finance income and costs are also influenced by exchange rate fluctuations in the group's foreign markets, particularly in Ukraine (see the chapter Financial risks). In 2023, the Ukrainian hryvnia weakened against the euro by around 8%. The translation of the loans received by the group's Ukrainian subsidiaries in euros into the local currency gave rise to an exchange loss of €480 thousand (2022: a loss of €1,416 thousand). In 2022, finance income was affected by the write-down of a loan granted to the Ukrainian associate V.I. Center TOV by €825 thousand. Neither the foreign exchange loss nor the write-down affected cash flow.

The group ended the year with a net profit of €2,056 thousand (2022: a net loss of €1,441 thousand). The net loss attributable to owners of the parent, Nordecon AS, was €942 thousand (2022: a net loss of €3,650 thousand).

Cash flows

Operating activities produced a net cash inflow of €12,877 thousand in 2023 (2022: an inflow of €3,466 thousand). Operating cash flow is strongly influenced by the fact that the contracts signed with most public and private sector customers do not require them to make advance payments while the group has to make prepayments to subcontractors and materials suppliers. Cash inflow is also reduced by contractual retentions, which extend from 5 to 10% of the contract price and are released at the end of the construction period only.

Investing activities resulted in a net cash outflow of €1,348 thousand (2022: an inflow of €21 thousand). Payments made to acquire property, plant and equipment and intangible assets totalled €362 thousand (2022: €810 thousand) and proceeds from the sale of property, plant and equipment amounted to €431 thousand (2022: €816 thousand). Loans provided amounted to €531 thousand (2022: €25 thousand). Proceeds from the sale of the subsidiary Nordecon Betoon OÜ were €9,050 thousand and cash outflow from the group's statement of financial position as a result of the sale was €10,030 thousand; the net effect of the transaction on the group's statement of cash flows was €(970) thousand.

Financing activities generated a net cash outflow of €6,874 thousand (2022: an outflow of €5,259 thousand). The largest items were cash flows related to loans and leases. Loans received amounted to €1,197 thousand, consisting of the use overdrafts and development loans (2022: €4,581 thousand). Repayments of loans received were €2,291 thousand (2022: €4,879 thousand), consisting of regular repayments of long-term investment and development loans. Lease payments were €3,060 thousand (2022: €3,481 thousand). Dividends paid in 2023 amounted to €1,494 thousand (2022: €488 thousand).

The group's cash and cash equivalents at 31 December 2023 amounted to €11,892 thousand (31 December 2022: €7,238 thousand). Management's commentary on liquidity risks is presented in the chapter *Description of the main risks*.

* The figures of Nordecon Betoon OÜ and NOBE Rakennus OÜ were included in the group's financial results until 30 November 2023 unless stated otherwise.

Key financial figures and ratios

Figure/ratio	2023	2022	2021	2020	2019
Revenue (€'000)	278,382	322,860	288,534	296,082	234,071
Revenue change	(13.8)%	11.9%	(2.5)%	26.5%	4.7%
Net profit (loss) (€'000)	2,056	(1,441)	(5,506)	4,118	4,149
Net profit (loss) attributable to owners of the parent (€'000)	(942)	(3,650)	(6,310)	2,466	3,378
Weighted average number of shares	31,528,585	31,528,585	31,528,585	31,528,585	31,528,585
Earnings per share (€)	(0.03)	(0.12)	(0.20)	0.08	0.11
Administrative expenses to revenue	3.2%	2.3%	2.1%	2.4%	2.9%
EBITDA (€'000)	3,938	5,766	(797)	7,003	7,311
EBITDA margin	1.4%	1.8%	(0.3)%	2.4%	3.1%
Gross margin	3.7%	2.6%	1.4%	3.7%	5.0%
Operating margin	0.2%	0.7%	(1.5)%	1.2%	1.8%
Operating margin excluding gain on non-current asset sales	0.1%	0.6%	(1.6)%	1.1%	1.7%
Net margin	0.7%	(0.4)%	(1.9)%	1.4%	1.8%
Return on invested capital	8.0%	(0.5)%	(6.5)%	9.3%	10.0%
Return on equity	8.3%	(5.2)%	(16.8)%	11.8%	12.5%
Equity ratio	18.7%	19.8%	20.8%	27.6%	27.9%
Return on assets	1.6%	(1.1)%	(4.1)%	3.3%	3.7%
Gearing	16.6%	32.0%	28.3%	21.1%	33.8%
Current ratio (note 5)	0.95	0.88	0.94	1.01	1.01

At 31 December	2023	2022	2021	2020	2019
Order book (€'000)	216,732	149,799	266,856	215,796	227,545

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

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

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

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

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

EBITDA margin = (EBITDA / revenue) * 100

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

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

Operating margin excluding gain on non-current asset sales = ((operating profit or loss – gain on sales of non-current assets – gain on sales of real estate) / revenue) * 100

Net margin = (net profit or loss for the period / revenue) * 100

Return on invested capital = ((profit or loss before tax + interest expense) / the period's average (interest-bearing liabilities + equity)) * 100

Return on equity = (net profit or loss for the period / the period's average total equity) * 100

Equity ratio = (total equity / total liabilities and equity) * 100

Return on assets = (net profit or loss for the period / the period's average total assets) * 100

Gearing = ((interest-bearing liabilities – cash and cash equivalents) / (interest-bearing liabilities + equity)) * 100

Current ratio = total current assets / total current liabilities

Order book

The group's order book (backlog of contracts signed but not yet performed) stood at €216,732 thousand at 31 December 2023, reflecting 45% growth compared to the end of 2022. In 2023, new contracts were signed for €276,901 thousand (excl. the contracts signed in 2023 by Nordecon Betoon OÜ, the subsidiary sold at the beginning of December 2023). The corresponding amount for 2022 was €163,498 thousand.

At 31 December	2023	2022	2021	2020	2019
Order book (€'000)	216,732	149,799	266,856	215,796	227,545

In terms of the breakdown of the group's order book between the two main operating segments, the share of Buildings has increased to 96%, while the share of Infrastructure has decreased to 4% (31 December 2022: 88% and 12%, respectively). Compared with 31 December 2022, the order book of the Buildings segment has increased by 58% and the order book of the Infrastructure segment has decreased by 47%. The volume of investments made by the Transport Administration has decreased sharply and this has had a direct impact on the order book of the Infrastructure segment. The volume of procurements for Rail Baltica has increased and is partly offsetting the decline in investments made by the Transport Administration. Public investment in building construction has also declined, but according to currently available information investment in national defence infrastructure, a subsegment in which Nordecon has traditionally been very successful, will increase. Major contracts secured in 2023 include:

- the design and construction of an administrative building in the Raadi campus in Tartu with an approximate cost of €5,200 thousand;
- the construction of a new study and sports building for the Saku upper secondary school with an approximate cost of €24,100 thousand;
- the design and construction of the expansion of the warehouse and storage facilities of the Centre for Defence Investment in Harju county with an approximate cost of €8,400 thousand;
- the construction of an office building for the Centre for Defence Investment in Tallinn with an approximate cost of €13,000 thousand;
- the reconstruction of the building of the Karlova school at Lina 2 in Tartu with an approximate cost of €6,800 thousand;
- the design and construction of a study building for the Centre for Defence Investment in the Raadi campus in Tartu with an approximate cost of €13,000 thousand;
- the design and construction of warehouse complexes for the Centre for Defence Investment in Luunja and Nõo municipalities in Tartu county with an approximate cost of €45,000 thousand;
- the reconstruction of substations with the installation of related physical protection in the Poltava, Zhytomyr, Volyn and Ivano-Frankivsk regions in Ukraine with an approximate cost of €7,000 thousand;
- the design and construction of a warehouse complex for the Centre for Defence Investment in Ida-Viru county with an approximate cost of €8,000 thousand;
- the design and construction of the LEED Gold compliant Golden Gate office building at Ahtri 6 in Tallinn with an approximate cost of €23,500 thousand;
- the design and construction of a commercial building at Nõlvakaare 4 in Raadi village in Tartu county with an approximate cost of €4,900 thousand;
- the construction of Loodusmaja (Nature Hub) at Vesilennuki 12 in Tallinn with an approximate cost of €54,300 thousand;
- the construction of the Neanurme–Pikknurme 2+1 road section of national road no. 2 (E263) Tallinn–Tartu–Võru–Luhamaa in Jõgeva county, km 135.5–141.9, with an approximate cost of €8,900 thousand;
- the reconstruction of the Hageri–Kohila section of national road no. 11220 Kernu–Kohila, km 8.7–16.0, with an approximate cost of €3,460 thousand.

We will also continue to deliver road maintenance services in Järva county under a five-year contract signed in 2020.

Although the order book has increased, management expects that in 2024 the group's business volumes will decline compared to 2023, mainly due to the sale of Nordecon Betoon OÜ. Rising materials and energy prices and labour costs will continue to push up input prices, keeping margins under pressure. In a fiercely competitive environment, we will avoid taking unjustified risks that could materialise during the contract execution phase and adversely affect the group's results. We will continue to focus on cost control and pre-construction and design activities where we can leverage our professional competitive advantages.

Investments and capital expenditures

Equity investments

We did not make any investments in non-group companies in the reporting period. Investments are described in the chapter *Group structure* in the directors' report and in note 6 to the financial statements.

Investment properties

We did not acquire or sell any investment properties (properties held for resale, rental income or capital appreciation) in 2023 or 2022. Properties reclassified from inventories to investment property in 2022 were sold in 2023 (see note 12 to the financial statements).

Investments in property, plant and equipment and intangible assets

Capital expenditures on property, plant and equipment totalled €3,038 thousand in 2023 of which €2,084 thousand was spent on right-of-use assets (2022: €4,903 thousand of which €4,035 thousand was spent on right-of-use assets) (see note 13). Investments made fell into three main categories: replacement of obsolete machinery and equipment, improvement of operating efficiency, and ensuring compliance with road maintenance requirements.

There were no major expenditures on intangible assets (see note 14).

Changes in the carrying amounts of relevant asset classes

Asset class (€'000)	2023	2022
Investment property (note 12)	(2,830)	2,748
Property, plant and equipment (carrying amount) (note 13)	(3,377)	236
Intangible assets (carrying amount) (note 14)	(169)	83

Due to the economic slowdown and decline in investments made in the construction sector, the group is planning to reduce its capital expenditures on property, plant and equipment and intangible assets in 2024 compared with 2023. The focus will be on replacing obsolete machinery and equipment and improving operating efficiency.

EU taxonomy report

The main objective of the European Union's sustainable finance policy is to channel finance into sustainable investments. This is facilitated by the EU Taxonomy Regulation, which took effect in mid-2020 ((EU) 2020/852). The Taxonomy Regulation establishes a taxonomy for assessing which economic activities are considered environmentally sustainable in the EU. The regulation does not apply to all economic sectors but focuses on activities with the greatest environmental impact, which include construction and real estate activities. Article 9 of the Taxonomy Regulation specifies the following six environmental objectives:

a) climate change mitigation;

b) climate change adaptation;

c) sustainable use and protection of water and marine resources;

d) transition to a circular economy;

e) pollution prevention and control;

f) protection and restoration of biodiversity and ecosystems.

By the end of 2023, delegated acts had been adopted for all six climate and environmental objectives, including acts for the last four environmental objectives adopted in June 2023.

The report must disclose the proportions of taxonomy-aligned economic activities in the total turnover (revenue), capital expenditures and operational expenditures (operating expenses), i.e. the share of economic activities which are environmentally sustainable. In relation to the last four environmental objectives, only the proportions of taxonomy-eligible and non-eligible economic activities must be reported in 2023 and taxonomy alignment will be reported in subsequent years. To be taxonomy-aligned, an economic activity must first comply with the scientific screening criteria provided in the taxonomy regulation. In addition, the activity must comply with the 'do no significant harm' principle as well as the minimum safeguards requirement. According to the 'do no significant harm' principle, an economic activity must not harm the achievement of other environmental objectives and must meet the technical screening criteria set out in the regulation. To meet the minimum safeguards requirement, an activity must respect the basic human rights and comply with good governance principles. The taxonomy eligibility ratio shows the extent to which the group's revenue, capital expenditures and operating expenses relate to economic activities described in taxonomy regulations, without considering whether the economic activities comply with the technical screening criteria.

Turnover

The group's taxonomy-eligible turnover (revenue) has been determined based on the breakdown of revenue by segments. Segment revenue comprises revenue from various projects/contracts. Revenue comprises consolidated revenue recognised in accordance with IFRS 15 (see note 27). Duplication of accounting is prevented by the structure of the analysis and internal project-based revenue accounting. For capital expenditures and operational expenditures, eligibility is based on the percentage of eligible activities of total activities, which ensures prevention of duplication of accounting.

Taxonomy-eligible turnover includes revenue recognised under contracts secured by the group as a general contractor in the Buildings segment (7.1. Construction of new buildings) and road rehabilitation revenue in the Infrastructure segment (6.13 Infrastructure for personal mobility, cycle logistics).

To determine taxonomy-aligned turnover, we analysed the compliance of the projects/buildings in the category of taxonomy-eligible turnover with the technical screening criteria, the 'do no significant harm' principle and the minimum safeguards requirement. Based on the analysis, we determined that for 1.5% (2022: 1.9%) of taxonomy-eligible turnover, the technical screening criteria were met but the economic activity did not meet the 'do no significant harm' principle, which is why the group does not have taxonomy-aligned turnover (or relevant capital expenditures or operational expenditures).

Capital expenditures

Capital expenditures (CapEx) comprise the period's additions to property, plant and equipment and intangible assets before depreciation, amortisation and possible remeasurements of the period, excluding changes in fair value (see notes 13 and 14). The group's operations are project-based and CapEx cannot be fully attributed to specific projects. Thus, the group's taxonomy-eligible CapEx has been determined based on the ratio of each group company's taxonomy-eligible revenue to the company's total external revenue. Taxonomy-eligible CapEx has been calculated by multiplying total CapEx for the period by the proportion of taxonomy-eligible revenue. As a significant proportion of the group's CapEx is related to group companies whose revenue is not taxonomy-eligible, the proportion of taxonomy-eligible CapEx is considerably smaller than that of taxonomy-eligible revenue.

Operational expenditures

For the purposes of taxonomy reporting, operational expenditures (operating expenses, OpEx) comprise direct non-capitalised expenses on research and development (incl. training), building renovation, short-term leases, maintenance and repair, and any other direct costs related to the day-to-day servicing of items of property, plant and equipment. Taxonomy-eligible OpEx have been calculated similarly to CapEx.

Proportion of turnover from products or services associated with Taxonomy-aligned economic activities

Financial year 2023	2023			Substantial contribution criteria						DNSH criteria ('Does Not Significantly Harm')									
Economic activity (1)	Code (2)	Turnover (3)	Proportion of turnover, year 2023 (4)	Climate change mitigation (5)	Climate change adaptation (6)	Water (7)	Pollution (8)	Circular economy (9)	Biodiversity (10)	Climate change mitigation (11)	Climate change adaptation (12)	Water (13)	Pollution (14)	Circular economy (15)	Biodiversity (16)	Minimum safeguards (17)	Proportion of Taxonomy-aligned (A.1.) or eligible (A.2.) turnover, year 2022 (18)	Category enabling activity (19)	Category transitional activity (20)
		€'000	%	YES; NO; non-eligible	YES; NO; non-eligible	YES; NO; non-eligible	YES; NO; non-eligible	YES; NO; non-eligible	YES; NO; non-eligible	YES/NO	YES/NO	YES/NO	YES/NO	YES/NO	YES/NO	YES/NO	%	E	T
A. TAXONOMY-ELIGIBLE ACTIVITIES																			
A.1. Environmentally sustainable activities (Taxonomy-aligned)																			
Turnover of environmentally sustainable activities (Taxonomy-aligned) (A.1)		.	%	%	%	%	%	%	%	NO	NO	NO	NO	NO	NO	NO	-		
Of which enabling		.	%	%	%	%	%	%	%	NO	NO	NO	NO	NO	NO	NO	-	E	
Of which transitional		.	%	%						NO	NO	NO	NO	NO	NO	NO	-		T
A.2 Taxonomy-eligible but not environmentally sustainable activities (not Taxonomy-aligned activities)																			
				Eligible; non-eligible	Eligible; non-eligible	Eligible; non-eligible	Eligible; non-eligible	Eligible; non-eligible	Eligible; non-eligible										
Construction of new buildings	CCA/7.1; CCM/7.1	198,238	71.2%	Eligible	Eligible	Non-eligible	Non-eligible	Non-eligible	Non-eligible		%						74.0%		
Infrastructure for personal mobility, cycle logistics	CCA/6.13; CCM/6.13	2,378	0.9%	Eligible	Eligible	Non-eligible	Non-eligible	Non-eligible	Non-eligible								-		
Turnover of Taxonomy-eligible but not environmentally sustainable activities (not Taxonomy-aligned activities) (A.2)		200,616	72.1%	%	%	%	%	%	%		%						74.0%		
A. Turnover of Taxonomy-eligible activities (A.1 + A.2)		200,616	72.1%	%	%	%	%	%	%								74.0%		
B. TAXONOMY-NON-ELIGIBLE ACTIVITIES																			
Turnover of Taxonomy-non-eligible activities		77,766	27.9%														26.0%		
TOTAL		278,382	100 %																

Proportion of CapEx from products or services associated with Taxonomy-aligned economic activities

Financial year 2023	2023			Substantial contribution criteria						DNSH criteria ('Does Not Significantly Harm')									
Economic activity (1)	Code (2)	CapEx(3)	Proportion of CapEx, year 2023 (4)	Climate change mitigation (5)	Climate change adaptation (6)	Water (7)	Pollution (8)	Circular economy (9)	Biodiversity (10)	Climate change mitigation (11)	Climate change adaptation (12)	Water (13)	Pollution (14)	Circular economy (15)	Biodiversity (16)	Minimum safeguards (17)	Proportion of Taxonomy-aligned (A.1.) or eligible (A.2.) CapEx, year 2022 (18)	Category enabling activity (19)	Category transitional activity (20)
		€'000	%	YES; NO; non-eligible	YES; NO; non-eligible	YES; NO; non-eligible	YES; NO; non-eligible	YES; NO; non-eligible	YES; NO; non-eligible	YES/NO	YES/NO	YES/NO	YES/NO	YES/NO	YES/NO	YES/NO	%	E	T
A. TAXONOMY-ELIGIBLE ACTIVITIES																			
A.1. Environmentally sustainable activities (Taxonomy-aligned)																			
CapEx of environmentally sustainable activities (Taxonomy-aligned) (A.1)		.	%	%	%	%	%	%	%	NO	NO	NO	NO	NO	NO	NO	-		
Of which enabling		.	%	%	%	%	%	%	%	NO	NO	NO	NO	NO	NO	NO	-	E	
Of which transitional		.	%	%						NO	NO	NO	NO	NO	NO	NO	-		T
A.2 Taxonomy-eligible but not environmentally sustainable activities (not Taxonomy-aligned activities)																			
				Eligible; non-eligible	Eligible; non-eligible	Eligible; non-eligible	Eligible; non-eligible	Eligible; non-eligible	Eligible; non-eligible										
Construction of new buildings	CCA/7.1; CCM/7.1	1,208	39.8%	Eligible	Eligible	Non-eligible	Non-eligible	Non-eligible	Non-eligible		%						44.0%		
Infrastructure for personal mobility, cycle logistics	CCA/6.13; CCM/6.13	82	2.7%	Eligible	Eligible	Non-eligible	Non-eligible	Non-eligible	Non-eligible								-		
CapEx of Taxonomy-eligible but not environmentally sustainable activities (not Taxonomy-aligned activities) (A.2)		1,290	42.5%	%	%	%	%	%	%		%						44.0%		
A. CapEx of Taxonomy eligible activities (A.1+A.2)		1,290	42.5%	%	%	%	%	%	%								44.0%		
B. TAXONOMY-NON-ELIGIBLE ACTIVITIES																			
CapEx of Taxonomy-non-eligible activities		1,748	57.5%														56.0%		
TOTAL		3,038	100 %																

Proportion of OpEx from products or services associated with Taxonomy-aligned economic activities

Financial year 2023	2023			Substantial contribution criteria						DNSH criteria ('Does Not Significantly Harm')									
Economic activity (1)	Code (2)	OpEx(3)	Proportion of OpEx, year 2023 (4)	Climate change mitigation (5)	Climate change adaptation (6)	Water (7)	Pollution (8)	Circular economy (9)	Biodiversity (10)	Climate change mitigation (11)	Climate change adaptation (12)	Water (13)	Pollution (14)	Circular economy (15)	Biodiversity (16)	Minimum safeguards (17)	Proportion of Taxonomy-aligned (A.1.) or eligible (A.2.) OpEx, year 2022 (18)	Category enabling activity (19)	Category transitional activity (20)
		€'000	%	YES; NO; non-eligible	YES; NO; non-eligible	YES; NO; non-eligible	YES; NO; non-eligible	YES; NO; non-eligible	YES; NO; non-eligible	YES/NO	YES/NO	YES/NO	YES/NO	YES/NO	YES/NO	YES/NO	%	E	T
A. TAXONOMY-ELIGIBLE ACTIVITIES																			
A.1. Environmentally sustainable activities (Taxonomy-aligned)																			
OpEx of environmentally sustainable activities (Taxonomy-aligned) (A.1)		.	%	%	%	%	%	%	%	NO	NO	NO	NO	NO	NO	NO	-		
Of which enabling		.	%	%	%	%	%	%	%	NO	NO	NO	NO	NO	NO	NO	-	E	
Of which transitional		.	%	%						NO	NO	NO	NO	NO	NO	NO	-		T
A.2 Taxonomy-eligible but not environmentally sustainable activities (not Taxonomy-aligned activities)																			
				Eligible; non-eligible	Eligible; non-eligible	Eligible; non-eligible	Eligible; non-eligible	Eligible; non-eligible	Eligible; non-eligible										
Construction of new buildings	CCA/7.1; CCM/7.1	3,410	66.1%	Eligible	Eligible	Non-eligible	Non-eligible	Non-eligible	Non-eligible		%						36%		
Infrastructure for personal mobility, cycle logistics	CCA/6.13; CCM/6.13	55	1.1%	Eligible	Eligible	Non-eligible	Non-eligible	Non-eligible	Non-eligible								-		
OpEx of Taxonomy-eligible but not environmentally sustainable activities (not Taxonomy-aligned activities) (A.2)		3,465	67.2%	%	%	%	%	%	%		%						36%		
A. OpEx of Taxonomy eligible activities (A.1+A.2)		3,465	67.2%	%	%	%	%	%	%								36%		
B. TAXONOMY-NON-ELIGIBLE ACTIVITIES																			
OpEx of Taxonomy-non-eligible activities		1,694	32.8%														64%		
TOTAL		5,159	100 %																

Sustainability and social responsibility

The focus on corporate sustainability and social responsibility has increased visibly over the years. The requirements set by the European Union are putting pressure on company owners and managers to become more aware of the impacts of their business operations and to set more precise targets in those areas. Although the national regulatory framework has not yet been finalised, large companies are preparing for stricter rules, both in terms of access to financial resources and participation in public procurements.

In the construction industry, the obligation to develop a sustainability strategy will first apply to large companies that need to do this in the short term. Given the way the sector operates, large general contractors and major material producers will have an impact on the whole industry, but the conservatism of the sector suggests that the process is unlikely to be rapid or spontaneous.

Nordecon's corporate social responsibility is underpinned by legal and regulatory compliance: we follow all applicable laws and regulations and maintain honest contractual relationships. We believe that our role as a public company imposes additional requirements that force and motivate us to be one step ahead of industry standards.

In spring 2023, we contributed to the creation of the Green Tiger Construction Roadmap, which was developed by companies and experts. The roadmap sets the target of reducing CO_2 emissions from the construction and real estate sectors by 85% by 2040 and provides recommendations on how to achieve this. By developing our ESG strategy and involving our key business partners and suppliers in the process, we are leading the way for other market players.

In setting our sustainability goals and carrying out our sustainability activities, we take into account the stakeholders that are affected by and affect our operations the most. The main stakeholder categories are investors, employees, customers, subcontractors, suppliers, legislators, regulators, local communities, local authorities, schools, professional associations and non-governmental organisations (NGOs).

We communicate regularly and directly with our investors, employees, customers, subcontractors and suppliers to establish working relationships and gather feedback. Where appropriate, we engage with local communities and authorities. Nordecon is proactive and transparent in its communications to prevent problems, and when problems do arise, we focus on quick solutions that take into account the interests of all involved.

Our communication with legislators and regulators is lawful, cooperative and solution-oriented. We work with schools, professional bodies and NGOs to share knowledge and discuss socially relevant issues.

The group's sustainability focus areas can be divided into three groups (based on their importance to stakeholders and the group):

1. The most important areas:

- Quality, customer experience and safety of the buildings and infrastructure assets we build
- Financial performance
- Fair business practices – legal and regulatory compliance, transparency and ethics
- Management capabilities and employee development

2. Very important areas:

- Working with subcontractors and suppliers
- Direct impact of construction activities on local communities
- Innovation, digital construction and technological solutions
- Occupational health and safety
- Employee satisfaction and engagement
- Availability of workforce and new talent
- Environmental impact of delivered buildings and infrastructure assets

3. Important areas:

- Giving back to society and supporting communities
- Direct environmental impacts of operations
- Diversity and fair treatment

The directors' report provides an overview of the principles and policies for managing the above sustainability focus areas, the results for the reporting period, relevant activities and examples.

We have not made any material changes to the selection or scope of the focus areas compared with previous reporting periods. As the group's main business lines have not changed significantly, the previously identified focus areas remain relevant.

Sustainability management

The role of the board is to initiate, lead, and ensure the addressing of sustainability issues within the company so that the group's mission, values, strategies, goals and policies are aligned with sustainable development principles. Ensuring the group's compliance with its sustainability commitments and the effectiveness of relevant activities is the responsibility of the board member responsible for the parent company's financial management and support services. The management of more specific sustainability issues has been delegated to the board members of the group's subsidiaries and the heads of the parent company's support services departments.

In 2023, the board focused on presenting the group's strategic objectives for the period 2023–2027 across the organisation, launching strategic initiatives to enable the achievement of these objectives and implementing relevant action plans through inclusive governance. The strategic initiatives cover our entire operating framework and business model, including the development of a sustainability strategy. In 2023, a series of group-wide discussions were held to develop a shared vision.

The management of sustainability topics is supported by the group's quality, environmental, and health and safety management system, which is based on the requirements of international standards (ISO 9001*, ISO 14001*, ISO 45001**). The aim of the management system is to ensure that work is carried out in accordance with the applicable requirements, the quality standards agreed with the customer and on time, in order to reduce the number of non-conformities and complaints, as well as to comply with the due diligence obligations and the precautionary principle (preventing the group's activities from having a significant impact on the environment, people and the economy). Responsibility is also embedded in the group's core principles and values. For each construction site, we prepare an environmental plan and a safety plan to identify the environmental impacts, health and safety risks and appropriate control measures. Before work begins, employees and business partners that need to work on a construction site are briefed on the site's main aspects and the measures to be taken. Subcontractors are supervised by the project team and evaluated on these aspects at the end of each project. The evaluation is taken into account when selecting subcontractors for future projects. The description and principles of the management system of Nordecon AS, approved by the board in 2023, can be found on the group's website.

We respect human rights and have incorporated the relevant principles into our internal rules and regulations. The group has not adopted a separate human rights policy. The internal rules and regulations are presented to and signed by each employee during the onboarding process. Group companies' human resource managers ensure that the internal rules and regulations comply with the law and make proposals for updates where necessary. Each employee is required to comply with the internal rules and regulations. Their compliance is monitored by their immediate supervisors. Subcontractors working on a site must comply with the site's rules. Their compliance is monitored by the project manager.

As part of the management system, the group has established an internal reporting system that enables the board to continuously manage and monitor not only the key business performance indicators but also the key sustainability indicators (e.g. occupational safety, environmental protection). Sustainability issues have been integrated into the group's operations management system and are regarded as part of usual management activities. The remuneration of managers is not linked to the achievement of sustainability objectives or the effectiveness of relevant activities.

The group organises monthly construction management meetings attended by senior management to ensure that all issues relating to construction sites and site personnel are consistently addressed and reviewed. A separate meeting is held at the end of each construction project to identify key observations and areas for improvement on subsequent projects (incl. social and environmental issues). Focused quality meetings are held quarterly to review any concerns and complaints received. Quality meetings are attended by the staff directly responsible for the area and board members.

** Applied at all group companies*
*** Applied at Nordecon AS, Nordecon Betoon OÜ and Embach Ehitus OÜ*

The effectiveness and results of the management system are reviewed by senior management during the annual review. The purpose is to verify the accuracy of the information provided by the management system, as well as the system's suitability, adequacy, effectiveness and alignment with the group's strategy. In case of ambiguity, the relevant employees are asked to clarify the data obtained. Critical issues and complaints must be reported promptly to management so that additional special meetings can be called if necessary.

The council normally meets once a quarter. At the meetings, the board presents the quarterly financial results and, if necessary, raises critical sustainability issues for further action.

Each construction site is subject to independent construction supervision to identify deficiencies and prevent problems. An external audit is carried out once a year to ensure that the group's management system complies with ISO standards. The audit includes visits to 1–2 construction sites.

In addition to direct communication, the group's employees can report deficiencies and make complaints using an anonymous hotline set up on the group's intranet (accessible to the employees of Nordecon AS, Nordecon Betoon OÜ, Tariston AS and Embach Ehitus OÜ). The reports sent to the hotline are read by a member of the audit committee and the reporting party can remain anonymous. External stakeholders can submit complaints to the group's general e-mail address, where the issues raised are registered and handled according to the nature of the matter. Contact details are available on the group's website, on the notice board at each site and in all contracts of the group.

The effectiveness of the board's activities is assessed by an independent audit committee, but sustainability issues are not assessed separately. In 2023, no significant deficiencies were identified in the management of sustainability issues and therefore no major changes were made to the organisation's management practices.

The group's annual report aggregates the results of all group companies. The report is audited by an independent auditor that verifies the accuracy of the numerical data presented. The sustainability information in the annual report is not separately audited by an external auditor (e.g. for compliance with the GRI standards). The board is directly involved in the group's sustainability reporting. The group's annual report (incl. sustainability information) is reviewed and approved by the council before it is submitted to the general meeting.

Quality and customer experience

Construction is a highly regulated sector, where the primary measure of quality is compliance with the legislation and standards that govern construction activities. The group's objective and responsibility has always been to offer its customers high construction quality and a value-creating partnership. The group's capabilities and skills are demonstrated by its ability to deliver large and complex projects in all segments, which distinguishes it from many of its competitors. This is made possible by systematic quality management and the group's highly experienced and professional engineers.

The group's success is measured by well-managed projects, buildings and infrastructure assets delivered on time and to the required quality standards, and safety throughout the construction process. The group's primary responsibility is to build safe buildings and infrastructure assets. There is no compromise on safety. The group's quality, environmental, health and safety management system is based on the requirements of the relevant international standards (ISO 9001, ISO 14001, ISO 45001).

We execute every project in accordance with the requirements of the customer, project documentation, applicable laws, regulations and standards, and our own management system. High customer satisfaction can be achieved through high construction quality, transparent operations and open communication throughout the construction process. The best result is achieved when all parties involved in a construction project – the customer, the architect, the designer, the owner's engineer and the builders – follow the same principles and work together towards a common goal.

The group's quality management system focuses on learning from experience by sharing and documenting both mistakes and positive examples.

Most group companies ask customers for feedback on the completion of a project. At the parent company, a quality coefficient is assigned to each completed project, which influences the performance-based remuneration of the project team. The quality coefficient is based on compliance with safety rules, deadlines, technical requirements, effective defect resolution and customer feedback.

Examples from the year 2023

In 2023, we completed a number of large and technically complex projects, which were fully executed during a period of high economic turbulence and general uncertainty. Despite the environment, our companies managed to maintain a very high level of customer satisfaction: 89% on average across the group.

Increased focus on ensuring the quality of the warranty claim process

In 2023, all our major building construction companies implemented the Hausing warranty task management platform. The key value of the Hausing platform is a seamless customer journey that allows all warranty work and improvement proposals to be made and tracked using a single information system.

Ensuring the safety of construction work carried out next to a working hospital

The parent company and the subsidiary Embach Ehitus carried out major construction work on phase 3 of the Maarjamõisa Medical Campus of Tartu University Hospital in 2023. A special feature of the project was the need to manage the construction work next to hospital buildings that provide daily medical services. This required a high level of attention and careful preparation by the team from both companies to anticipate and avoid potential risks.

Ensuring the safety of buildings

In 2023, the parent company had an incident where a survey carried out by an expert commissioned by Nordecon indicated a potential defect in the structure of a building. Although a repeat assessment did not confirm the risk and the potential defect was identified in the work of an external design company, we reacted quickly and carried out additional work to ensure the long-term safety of the building.

Performance indicators

	2023	2022
Customer satisfaction score*		
Nordecon AS	90%	83%
Tariston AS	83%	91%
Kaurits OÜ	-	95%
Eurocon Ukraine TOV	94%	96%
Embach Ehitus OÜ	93%	90%
Nonconformances with regulations and the quality management system		
Number of nonconformances with health and safety regulations and/or voluntary codes on completed construction projects	0	1
Number of nonconformances with the management system identified during internal audits that prevent achievement of goals	0	0

* Each company applies its own methodology. The result is converted to a scale of 100%. The figure reflects feedback received during the year. Subsidiaries NOBE Rakennus OY and Nordecon Betoon OÜ do not have separate accounting for customer satisfaction.

Cooperation with subcontractors and suppliers

Smooth and high-quality execution of construction projects requires cooperation with subcontractors and the suppliers of materials and products. Honest and transparent communication, early identification and resolution of issues, mutual respect and adherence to agreements build trust and help prevent and resolve problems.

It is important to have business partners that are recognised operators and meet the customer's and our expectations. Nordecon does not work with partners that are known to be involved in dishonest business practices. When selecting partners, we consider their background, track record, technical capabilities, quality of work done, security of supply, adherence to deadlines and prices.

The group is responsible for ensuring the quality of the materials used on its construction sites. Although building materials and products are generally subject to high standards and requirements, we rigorously check all materials and products to avoid subsequent risks. We use our experience and knowledge to offer the customer the most efficient solutions that are best suited to the construction project.

At the parent company, each supplier and subcontractor is evaluated after a project or order has been completed. There is a dedicated database and the criteria for evaluating subcontractors include time, quality, cooperation, team, documentation, safety and the environment. Other group companies evaluate their suppliers and subcontractors annually, but have taken steps to do so more frequently and accurately.

Examples from the year 2023

The construction market has changed rapidly in recent years. In 2023, the market was characterised by a number of trends that emerged in 2022 and had a strong impact on the performance of companies operating in the construction industry. In particular, high inflation and high interest rates created a lot of pressure. According to Statistics Estonia, the construction price index has risen for several years in a row and rising labour costs are pushing up construction prices.

The tensions in the construction sector have also affected some of our companies' projects, increasing the number of complex situations and liquidity issues that need to be resolved. Although the situation is challenging, we are committed to maintaining good relationships with key partners and finding solutions to short-term problems.

Registering workers on construction sites

The obligation to electronically register workers on construction sites took effect on 1 October 2023. The aim is to increase transparency regarding the persons present on a construction site and to help detect potential tax fraud. The regulation applies to projects started before the effective date of the regulation and scheduled to end after 1 October 2024 or started after 1 October 2023. The group has worked closely with the Tax and Customs Board to be able and ready to implement the new requirements on time, despite initial technical issues with the system.

Performance indicators

	2023	2022
Share of subcontractors with whom an agreement on meeting health and safety requirements has been signed	98%	100%
Number of subcontractors with significant identified breaches, risks or negative impacts relating to health and safety aspects, which have resulted in termination of cooperation or an official decision to avoid future cooperation	0	0
Share of subcontractors with whom an agreement on meeting environmental requirements has been signed	95%	97%
Number of subcontractors with significant identified breaches, risks or negative impacts relating to environmental aspects, which have resulted in termination of cooperation or an official decision to avoid future cooperation	0	0

Contracts set out the parties' responsibilities for ensuring occupational, fire, electrical and environmental safety.

Innovation, digital construction and technological solutions

Digital construction, which refers to a wide range of solutions for digitising construction processes, is a natural part of our everyday work. The purpose of digital solutions is to make work more efficient, transparent and systematic by automating processes, better analysing operations and making smarter decisions. We promote digital construction in Estonia to make meaningful digital solutions the local industry standard. Digital construction helps modernise the construction industry, avoid unnecessary mistakes and make the image of the sector more attractive to young people choosing a career. In 2023, as in previous years, Nordecon was on the board of the Digital Construction Cluster, which brings together various stakeholders interested in the development of the industry. Our aim is to contribute to the broader development of digital construction in Estonia.

The use of BIM (Building Information Modelling) – the main tool of modern digital construction, is the standard for construction projects undertaken by the Nordecon group. Model-based project management creates transparency and improves communication by putting everyone involved in a construction project on the same information page.

BIM improves overall project quality by allowing errors to be identified and corrected prior to construction and by giving the customer a better overview and understanding of the process. Model-driven design also helps develop smarter energy consumption, space planning, lighting, indoor climate and other solutions.

The group continued to develop various digitised and automated solutions and implement related processes to increase transparency and share knowledge and experience (e.g. shared dashboards and cloud-based time management for construction projects).

Examples from the year 2023

Implementing BIM in management

In recent years, we have moved to the next level in the implementation of BIM: it is now part of management planning. The parent company applied the methodology to the construction of a new school building in Saku, which started at the beginning of summer 2023.

First project to meet Rail Baltica requirements

The construction of the Tagadi ecoduct (a wildlife crossing) by our subsidiary Tariston provided the first opportunity to implement Rail Baltica's enhanced BIM requirements. The site team recorded all work in a model, which was also used to sign delivery and acceptance certificates with both subcontractors and the customer.

Using artificial intelligence to assess construction progress

The parent company applied AI-based technology to the construction of the Vektor high-rise. Using a platform developed by Buildots, a leading global technology provider, the construction team systematically captured 360-degree images of the entire construction process of the building to assess and manage progress. The platform enables accurate and seamless assessment of construction progress, as well as instant and rapid comparison of data with BIM models and site schedules. The six-month pilot project, carried out as part of Tehnopol's AI development programme, was named Innovation Project of the Year 2023 by the Digital Construction Cluster.

Data-driven management

To complement the data-driven tools supporting construction management, the parent company developed a dashboard for its sales and pre-construction divisions.

Employees and work environment

Our people

At the heart of our success are our people – their high level of professionalism and commitment to achieving our goals. That is why all group companies invest in providing a modern and safe working environments and motivating working conditions. We support employees in their professional development and recognise effective performance.

The group's workforce includes professionals with a wide range of experience. Our scale of operations provides excellent opportunities for personal fulfilment and growth. The parent company has joined the Family Friendly Employer programme and was the first construction company in Estonia to be awarded the Silver Badge of a Family Friendly Employer in 2022.

We respect human rights and the relevant principles are set out in our internal rules and regulations. We treat everyone equally and employ people of different ages, genders and ethnicities, as well as people with special needs. The group's employees are offered a wide range of benefits and opportunities for personal development. Due to the nature of the construction industry, the proportion of women is lower than that of men: our workforce is 17% female and 83% male.

Group companies consciously develop their reputation as employers and invest in promoting the construction industry. We pay particular attention to young people and organise annual events to attract and develop new talent. We participate in career fairs and workshops for students, and organise open days and site visits. Our employees are also involved in the activities of a number of professional bodies.

Examples from the year 2023

According to Statistics Estonia, the construction price index increased by 6.1% in 2023 compared to 2022, and one of the main factors was strong wage pressure. Labour costs for all sectors increased by 7.0%, reflecting the challenges construction companies face in retaining and recruiting skilled workers in an environment of declining economic growth. Construction companies are competing fiercely for employees and, depending on the job, it can take several months to find the right person.

The group's headcount was mainly influenced by two major structural events in 2023. We completed the consolidation of our Infrastructure segment with the merger of the subsidiaries Tariston AS and Kaurits OÜ. The average number of employees was also affected by the fact that Nordecon Betoon OÜ was part of the group until the beginning of December 2023.

High score in attractive employer survey

Engineering students ranked Nordecon AS third in a survey of attractive employers conducted by Instar EBC among the students of higher and vocational education institutions in 2023. This is the result of our consistent work with students over the years.

Performance indicators

	2023	2022	2021	2020	2019
Number of employees					
Total average number of employees at group companies	558	658	685	708	687
Of which: engineers and technical professionals (ETP)	374	432	434	450	414
workers	184	226	251	258	273
Change in number of employees (year on year)	(15)%	(4)%	(3)%	3%	0%
Gender diversity					
Proportion of women in the group's workforce	17%	16%	16%	15%	16%
Proportion of men in the group's workforce	83%	84%	84%	85%	84%
Proportion of women among group companies' board members	7%	8%	8%	8%	7%
Proportion of men among group companies' board members	93%	92%	92%	92%	93%
Age diversity					
Proportion of employees under 30 years old	20%	21%	21%	21%	21%
Proportion of employees 30-49 years old	55%	57%	57%	56%	54%
Proportion of employees 50 years old and over	25%	22%	22%	23%	25%
Productivity					
Nominal labour productivity (€'000)*	499.3	490.4	420.8	422.9	340.6
Change (year on year), %	1.8%	16.5%	(0.5)%	24.2%	4.7%
Nominal labour cost efficiency (€)**	10.3	11.8	11.5	10.9	9.2
Change (year on year), %	(13.4)%	2.9%	5.5%	18.0%	(5.0)%
Staff costs					
Staff costs, including all taxes (€'000)	27,145	27,248	25,054	27,130	25,323
Service fees of members of the council (€'000)	179	150	150	165	187
Social security charges paid on service fees of members of the council (€'000)	59	50	50	54	62
Service fees of members of the board (€'000)	775	417	369	432	480
Social security charges paid on service fees of members of the board (€'000)	255	138	122	143	158
Other indicators					
Number of interns	19	28	45	21	40
Number of incidents of discrimination against employees or human rights violations	0	0	0	0	0
Average length of employment at a group company	9.0	8.0	7.5	7.0	6.9

* Nominal labour productivity = revenue / average number of employees per year

** Nominal labour cost efficiency = revenue / staff costs per year

Average number of employees in 2023 by country

	Estonia	Finland	Ukraine	Sweden
Total	**478**	**25**	**54**	**1**
Employees under 30 years old	100	10	2	0
Employees 30-49 years old	257	11	39	1
Employees 50 years old and over	121	4	13	0
Employees with open-ended employment contracts	457	25	54	1
Employees with fixed-term employment contracts	21	0	0	0
Full-time employees	452	25	43	1
Part-time employees	26	0	11	0

Average number of employees in 2023 by employee category

	Engineers and technical professionals		Workers	
	Women	Men	Women	Men
Total	**88**	**283**	**6**	**181**
Employees under 30 years old	20	66	0	26
Employees 30-49 years old	48	172	1	87
Employees 50 years old and over	20	45	5	68
Employees with open-ended employment contracts	84	269	6	178
Employees with fixed-term contracts	4	14	0	3
Full-time employees	72	268	2	176
Part-time employees	16	15	4	5
New hires/leavers (employee turnover, %)	**12/20 (22.7%)**	**58/54 (19%)**	**1/3 (50%)**	**62/55 (30%)**
Employees under 30 years old	7/9	22/14	0/1	22/18
Employees 30-49 years old	4/10	31/34	1/2	34/25
Employees 50 years old and over	1/1	5/6	0/0	6/12

Number of people working under service or authorisation agreements and labour lease arrangements who are not included in the number of employees: 8

The employees of the subsidiary NOBE Rakennus OY, who account for 4% of the group’s workforce, are covered by collective agreements.

Employee satisfaction and inclusion

Maintaining and continuously improving employee satisfaction and engagement is one of our strategic priorities. Since 2010, we have regularly measured employee satisfaction using the Kantar Emor TRI*M index (a summary engagement index). All surveys are conducted by the same company – Kantar Emor. In 2022, it was decided that group-wide satisfaction surveys would be conducted every two years.

We value honest and open communication and work consistently to keep our employees well informed. Carefully considered management decisions enable us to be flexible and make the best possible choices in any economic environment.

Examples from the year 2023

Employee satisfaction

A group-wide satisfaction survey was conducted in autumn 2023. Employee engagement was at an all-time high. The results varied slightly by category and company, but overwhelmingly showed a positive jump compared to 2020 and 2021, when group-wide satisfaction surveys were last conducted.

In 2023, we asked for the first time about levels of work-related stress and stress factors. Respondents rated their level of stress at work as average.

Employee recognition

At Nordecon AS, employees of the year are elected at the end of each year. Relevant awards are given in several categories and all employees can vote and express their opinions. Group-level awards are presented at the annual Winter Seminar to recognise group-wide achievements, outstanding projects or people who deserve recognition for excellent inter-company cooperation, innovation, exceptional performance or long-term commitment.

Employee events and activities

We believe it is important not only to work, but also to come together as a team to celebrate our successes and recharge our batteries. In 2023, all group companies organised events and activities for employees, including company-wide, team and site events. To help employees maintain a good work-life balance, several group companies organise joint visits to the theatre or a sports event once or twice a year, which employees can attend with a companion.

Supporting employee health and wellbeing

The Nordecon group pays increasing attention to supporting the health and wellbeing of its employees. The parent company organises a Health Month twice a year during which employees are encouraged to take part in exercise challenges, attend health lectures and eat healthy. The lectures are open to employees from all group companies. The aim is to highlight and raise awareness of mental health issues on an ongoing basis. Some of our employees have been trained in mental health first aid (trainer: peaasi.ee) and our long-term goal is to increase the percentage of such employees.

The group's subsidiaries Nordecon Betoon and Embach Ehitus organised various sports challenges for employees and rewarded them for participation.

Lectures to broaden horizons

In 2023, our subsidiary Nordecon Betoon launched a diverse lecture series focused on employee development and education in areas outside of construction. Regular meetings are held with leading experts and professionals from various fields (e.g. financial literacy, healthy eating, stress management, brain training, etc.).

Performance indicators

	2023	2022	2021	2020	2019
Employee engagement index (TRI*M index)	73	Data was not collected	54	54	66
Number of employees invited to participate in the survey	345		372	370	367
Share of employees that responded to the survey	77%		87%	88%	75%

Employee development

The delivery of quality service is underpinned by the professional knowledge and skills of our people. The competence of our employees plays a major role in our success. That is why we invest systematically and consistently in staff training. Employees' development needs and aspirations are identified through annual performance reviews, which help us identify training needs, make certification plans and obtain valuable feedback on our organisation and management.

Examples from the year 2023

Long-term development programme

In 2023, the parent company launched a comprehensive long-term management development programme. The first step was to work with management to identify the management skills and competencies required for different positions. The trainers are leading professionals in their field.

Meetings for specialists

In 2023, the group's subsidiary Nordecon Betoon introduced meetings for specialists, where experienced colleagues share their knowledge of specific construction-related topics with other specialists in the same field.

Updated annual performance review form

In autumn 2023, the parent company updated the annual performance review form. In particular, the personal development section was updated to include development activities that help employees realise their potential and achieve their goals. The new form was implemented from 2024.

Performance indicators

	2023	2022
Total average number of training hours for managers and ETP staff	8.5	8.5
Of which: women	8.0	9.0
men	9.0	8.0
Total average number of training hours for workers	0.75	7.5
Of which: women	0.0	1.0
men	1.5	7.0
Share of ETP staff with a valid professional certificate	49%	52%
Share of ETP staff with whom performance reviews were conducted	42%	41%

Across the group, 71% of board members participated in various management training courses during the year.

Health and safety

Construction is a sector where accidents occur more frequently than in other sectors. It is therefore in the interests of the employer, the employee, the business partner and the customer to keep construction sites safe and tidy. Ensuring site safety and creating a safe and ergonomic working environment to prevent accidents and occupational diseases among employees and subcontractors is one of the group's main responsibilities.

Health and safety at work is clearly regulated by laws and regulations. To ensure compliance, we have assigned responsibility for health and safety at all group companies. We have established procedures for emergency situations, conduct risk analyses, carry out health checks, and train and inform employees. We draw up action plans for our construction sites, provide employees with the appropriate work and personal protective equipment, and analyse risk situations and accidents to prevent recurrence. We plan and conduct up to two emergency drills a year to simulate a fire or other emergency. Tone at the top and leadership by example play an important role in promoting a good safety culture and encouraging employees to pay more attention to their health and safety.

The group's subsidiary Nordecon Betoon has implemented the TOM safety index to carry out two-stage occupational safety assessments at its construction sites. The safety coordinator at each site carries out weekly checks using TOM. The working environment specialist also visits the sites and carries out additional inspections. At the parent company, TOM inspections are carried out twice a year at each site. The average TOM score in 2023 for both the parent company and Nordecon Betoon was above 90%.

The operations of the parent company and the subsidiaries Nordecon Betoon OÜ and Embach Ehitus OÜ meet the requirements of the international occupational health and safety management standard ISO 45001:2018.

Examples from the year 2023

Occupational health and safety management software

In 2023, the group's subsidiary Nordecon Betoon implemented the VITS occupational health and safety management software to make the process of initial safety and work environment training easier and more effective. With VITS, initial training can be carried out online. The company also uses VITS to train new employees and to instruct subcontractors on construction sites. Previously, subcontractors were instructed on site in the general contractor's cabin and the work and environmental safety plan was signed manually. Now, on some sites, this is done digitally in the VITS environment. The software allows employees to complete training and take tests independently, and to confirm training digitally before entering the site.

Regular site visits by the work environment council

The parent company's work environment council, which includes two board members, regularly visits construction sites. Two visits were made in 2023 (Ahtri 4 office building and Saku school). The visits include a review of the work environment council's action plan for the current year.

Addressing safety on social media

As a major player in the local construction market, the group is aware of its greater responsibility to address safety issues in the industry. In 2023, the parent company introduced a playful 'safety fleece' format on its social media channels to draw attention to the importance of safety issues, share knowledge and good practices, and promote the group's values and principles for safety at work.

Performance indicators

	2023	2022	2021	2020	2019
Accidents at work involving the group's workforce*					
Number/rate of work-related safety incidents	13/15.3	6/5.9	8	3	5
Number/rate of minor accidents at work	2/2.35	5/4.9	5	6	10
Number/rate of serious accidents at work	0/0	1/1.0	0	2	2
Number of fatal accidents at work	0/0	0/0	0	0	0
Number of hours worked (in millions)	0.85	1.02			
Accidents at work involving subcontractors' workforce					
Number of work-related safety incidents	11	11	12	35	24
Number of minor accidents at work	2	5	7	8	6
Number of serious accidents at work	2	6	2	3	1
Number of fatal accidents at work	0	0	0	0	0
Number of sick leave days taken by the group's workforce					
Total number of sick leave days taken across the group	2,795	3,345	4,301	4,743	3,686
Average number of sick leave days per employee	4.2	5.1	6.3	6.9	5.4
Proportion of sick leave days of all planned workdays**	2.7%	2.0%	2.5%	2.7%	2.1%

* Incident and accident rates have been calculated per million working hours. In earlier periods, data was not collected.
** The proportion of sick leave days has been calculated based on working time per calendar year in Estonia.

Accidents involving subcontractors resulted from incorrect use of work and protective equipment and negligence.

Direct impact of construction activities on local communities

Part of a responsible construction process is to minimise the disruption to communities near the construction site. However, construction activities inevitably involve noise, vibration, dust, transport and traffic management changes that affect the wellbeing of the local community.

While it is not possible to eliminate disruption completely, it is possible to reduce its impact and to follow the principles of open communication. Good community relations enhance the group's reputation and facilitate potential future operations in the same area.

The group informs local communities about planned work in advance through various channels (media, direct communication, information boards), taking into account the nature of the project. We communicate regularly with local authorities and, when necessary, organise meetings with the local community to anticipate problems and answer people's questions. Each construction site has appropriate notice boards with contact details. All inquiries and complaints received are registered and passed on to the appropriate staff for resolution. No complaint is ignored and all communications are dealt with as quickly as possible.

To prevent problems, each construction site has an environmental management plan that includes measures for reducing disturbance. Where possible, we schedule noisier work at times when it causes the least disturbance to the community. To reduce disruption, we have asked the community and local authorities to allow longer working days at some sites. We strive to avoid damage to the surrounding buildings and infrastructure during construction. Where damage does occur, we cover the cost of repair. Each site has separate liability insurance to cover such risks and other such unexpected situations to ensure that no damage or injury goes uncompensated.

In general, we have good relations with the local communities. People are cooperative and understanding, and minor issues are resolved as they arise.

Examples from the year 2023

Local communities did not raise any major issues during the year. The group has achieved a high standard of compliance with environmental management plans and serious problems with the site teams are rare. We carry out construction site inspections, which are attended by division managers, and hold regular meetings of the work environment council, which are attended by members of the board.

Respecting the wishes of local people

To ensure road safety for local residents, the group's subsidiary Tariston has responded to the wishes of local people by choosing a longer and potentially more costly route to transport material from the quarry for a number of infrastructure construction projects. The group's aim is to minimise disruption to the community and households.

Art project to brighten up a construction site

The group's subsidiary Nordecon Betoon collaborated with artist Okeiko on the Ülemiste City Education Centre construction project. The site's fences and cabins were covered with colourful illustrations to cheer up passers-by and the local community and to draw attention to the place where future talents will study.

Performance indicators

	2023	2022
Justified official complaints received from people living near our construction sites	1	7

The complaint concerned damage to a fence adjacent to the construction site during construction work.

Giving back to society and attracting new talent

Nordecon has the greatest social impact through its well-planned and safe construction processes and high-quality end results. The job of a civil engineer is very important because the entire built environment around us, such as schools, kindergartens, homes, offices and infrastructure, is built thanks to the daily work of civil engineers. We need competent civil engineers to ensure that our built environment is safe, of high quality and environmentally sustainable. We believe it is important that, in addition to the skilled civil engineers working for us today, we support the next generation of engineers and, more broadly, the values of a society that creates the conditions for them.

Our companies contribute to society in the following ways:

- We work with universities and vocational schools to promote and popularise construction and engineering. Group companies participate in career fairs, offer a wide range of internships and support a variety of youth-related activities.
- The group speaks out on issues relating to the construction industry, participates in workshops aimed at developing the sector and makes proposals through various professional associations.
- We support sport, education, culture and local community activities.

Examples from the year 2023

Activities for new talent

We offered paid internships to students at all group companies and organised special events for construction and engineering students and interns to introduce the group and its activities (open days, site visits, lectures). Several students who completed their internships decided to join the Nordecon team, and the group supports them by offering flexible working hours and part-time work. The group has a good reputation among engineering students, which is reflected in the fact that the parent company was once again one of the top ten most attractive employers for engineering students according to a survey conducted by Instar, ranking third in 2023.

Popularising engineering

In addition to activities directly aimed at the next generation, group companies contributed to the popularisation of various fields of construction and engineering:

- The parent has a five-year agreement with Tallinn University of Technology to cooperate in the education and training of civil engineers in Estonia. In 2023, Tallinn University of Technology acquired a new high-performance testing facility that allows tests to be carried out on the components and joints of building structures.
- The subsidiary Embach Ehitus continued to work with the Estonian Association of Civil Engineers to promote the engineering profession, contributing both financially and through lectures at various Estonian schools.
- For the second consecutive year, the parent company participated as a founder in the implementation of the education programme ‘Lae end’ (Charge Yourself) that is aimed at empowering secondary school physics teachers. The programme received the Friend of Education of the Year 2023 award from both the Ministry of Education and Research and the City of Tallinn, as well as an international communication award.
- Nordecon awarded two engineering scholarships and a Heinrich Laul PhD scholarship for a young lecturer/researcher under the scholarship programme of the Development Fund of Tallinn University of Technology. The group’s subsidiary Tariston contributed to the Peep Sürje Scholarship Fund.

Promoting the construction industry and engineering professions

- We supported professional conferences and career events for students: Key to the Future, Engineering Career Day, BIM Summit.
- In 2023, both the parent company and the subsidiary Embach Ehitus were represented in the governing bodies of the Estonian Association of Construction Entrepreneurs.
- The parent company was a member of the board of the Digital Construction Cluster, which brings together various stakeholders supporting the development of digital construction.
- The subsidiary Tariston actively participated in the work of the asphalt concrete and asphalt pavements committee of the Road Maintenance Advisory Board, a body set up by the Transport Administration and the Estonian Infra Construction Association.

Other support activities

- We supported education and culture: Nõmme Private Education Foundation, Tallinn City Theatre.
- We supported sports: Club Tartu Maraton, ice hockey club HC Panter, handball club HC Kehra, basketball club BC Kalev Cramo, football teams FC Kose and Paide Linnameeskond, Tartu Academic Tennis Club and alpine skier Tormis Laine.
- We supported local communities: the group’s subsidiary Tariston helped build two new outdoor volleyball courts in Paide and we prepared and later maintained the roads used for the route of the Paide Rally.
- We contributed to the activities of the National Defence Promotion Foundation and the Estonian Reserve Officers’ Association.
- The parent company continued the tradition of making a Christmas donation: in 2023 our financial contribution went to the SOS Children’s Village Estonian Association.

Membership

- **Group companies are members of the following organisations:**
  - Estonian Chamber of Commerce and Industry
  - Estonian Association of Construction Entrepreneurs
  - Estonian Infra Construction Association
  - Estonian Concrete Association
  - Estonian Water Works Association
  - Estonian Human Resource Management Association
- **Several employees are individual members of professional associations, such as:**
  - Estonian Association of Civil Engineers
  - Association of Estonian Surveyors
  - Estonian Mining Society
  - Estonian Society for Electrical Power Engineering
  - Estonian Society of Heating and Ventilation Engineers
  - Estonian Association of Water Supply and Wastewater Engineers
- **Nordecon's employees participate in committees, working groups and platforms, such as:**
  - Estonian Qualifications Authority (promotion of the engineering profession and further engineering training, development of relevant standards)
  - Council and Qualifications Board of the Estonian Association of Civil Engineers
  - Committees of the Road Maintenance Advisory Board
  - Digital Construction Cluster
  - Green Tiger

Performance indicators

	2023	2022	2021	2020	2019
Donations and support payments made by the group (€'000)	258	204	232	240	290

Environmental impacts

Regulations are constantly changing and society is becoming more environmentally aware. It is therefore increasingly important to pay attention to the environmental aspects of construction work. We take care to comply with all environmental regulations to ensure appropriate behaviour and to avoid possible sanctions and criticism from local communities. We strive to avoid risks and negative environmental impacts and to keep the environment clean.

We keep a record of the environmental impact of our operations. All group companies have implemented an environmental management system that complies with ISO 14001. An environmental management plan is prepared for each construction project and its implementation is regularly checked and updated. Further information on our approach to the environment is available on our website in the description of the management system of Nordecon AS.

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

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

Construction is a price-sensitive industry where environmental impacts can be reduced where economically feasible or required by the customer, but additional opportunities for voluntary reduction of environmental impacts or recycling are difficult to find. However, we are making efforts to raise the awareness and influence the behaviour of our subcontractors (e.g. in relation to site waste management).

There is a clear trend towards more sustainable buildings and infrastructure. This is mainly attributable to EU energy efficiency measures, the growing importance of green thinking and customers' desire to reduce their building and infrastructure maintenance costs. These developments mainly affect the design phase. Our goal is to make sure that our team can implement more sustainable solutions in both current and future projects. To this end, our project managers participate in environmental awareness lectures and we advise customers that wish to find more sustainable solutions.

Examples from the year 2023

In spring 2023, we contributed to the creation of the Green Tiger Construction Roadmap, which was developed by companies and experts. The roadmap sets the target of reducing CO_2 emissions from the construction and real estate sectors by 85% by 2040 and provides recommendations on how to achieve this. By developing our ESG strategy and involving our key partners and suppliers in the process, we are leading the way for other market players.

Additional investment in sustainable technology

Due to the market situation and the expected changes by the Transport Administration in the principles for participation in public tenders, the group's subsidiary Tariston decided to invest €400 thousand in additional equipment for the Amomatic 240 SM plant in 2023. The investment will allow the cost price of the asphalt concrete mix to be reduced by around 10%, which will create a competitive advantage on the asphalt concrete sales market and for successful participation in the tenders organised by the Transport Administration. As an additional added value, the investment will allow reducing the environmental footprint of asphalt production by 27%.

Green solutions for buildings

Our companies are constantly improving their ability to offer customers environmentally friendly solutions where the technical design of the building allows it. For example, our subsidiary Embach Ehitus implemented a number of special solutions in the construction of the Pirni 7 office building: activated pile foundations for heating and cooling, rainwater recycling, a solar power system to reduce energy consumption, intelligent lighting control to reduce energy consumption and ensure a high-quality working environment, and an intelligent access system integrated into door handles.

Performance indicators

	2023	2022
Compliance with environmental regulations		
Number of significant citations or fines issued by supervisory authorities for non-compliance with environmental regulations	0	0
Number of significant environmental pollution incidents caused by group companies	0	0
Number of construction or permanent operating sites located in nature reserves or areas of high biodiversity value	0	2
Energy consumption*		
Electricity consumed by the group's asphalt concrete plant, MWh	402	418
Fuels consumed by the group's asphalt concrete plant, thousand litres	1,329	1,376
Natural gas consumed by the group's asphalt concrete plant, thousand m^3	0	0
Proportion of renewable energy consumed by the group's asphalt concrete plant, %	3%	3%
Carbon emissions		
Direct carbon emissions of the group's asphalt concrete plant, tonnes of CO_2	3,741	3,873
Carbon intensity ratio (CO_2 emissions in tonnes ÷ asphalt concrete produced in thousands of tonnes)	22.3	22.1
Other		
Number of buildings meeting higher than usual environmental standards delivered during the year	36	28

* The table reflects the results of Tariston AS. Group companies do not measure the energy consumption of other activities on a uniform basis.

Materials and waste

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

The main construction materials used by our companies are concrete, aggregates (crushed stone and sand), steel and bitumen-based asphalt mixes. The use of reinforced concrete elements, glass façade solutions, and opening closures (doors and windows) is also significant.

In road construction, which is material intensive, we reuse as much existing subsoil as possible to reduce the need to extract new material. Wherever possible, asphalt millings resulting from the removal of old pavements are reused in asphalt concrete mixes or sub-bases for roads. Nearly 50% of the dust generated during asphalt production is also used in the asphalt mix. In quarries, we use special equipment to wash fine particles out of otherwise unsuitable soil. This provides additional road construction material and reduces the need to expand quarries.

Nordecon handles and manages waste in accordance with national and local regulations. The main types of waste generated by our operations are: waste stone, soil, concrete, bituminous mixes, mineral waste and mixed construction and demolition waste (in small quantities also wood, metal, paper, plastic and mixed municipal waste and various types of packaging). Waste is sorted and handed over to waste handlers. Hazardous waste and contaminated soil are handed over to appropriately licensed waste handlers. For verification purposes, the parent company has set up waste register in which site-specific supporting documents are entered, confirming that waste has been transferred to the appropriate companies.

Examples from the year 2023

Our companies' portfolios include many examples of successful material recycling. For example, our subsidiary Nordecon Betoon used excavated limestone to build the grounds and backfill at the site of the Ülemiste City Education Centre and timber from previous housing development projects to build temporary stairs and fences during the construction of the Uus-Järveküla housing estate.

Protection of soil and biodiversity

The group's exposure to wildlife, soil and water body pollution risk arises mainly from road construction and the operation of asphalt plants and quarries. The risk of oil, fuel and wastewater spills and leaks is lower.

To avoid the risk of pollution, we make sure that our employees are aware of environmental protection requirements, that the machinery and equipment we use is in good condition and that we use appropriate techniques and methods. We have agreed and implemented clear action plans and measures to manage risks and resolve incidents. During construction, we avoid unnecessary damage to vegetation and protect plants.

In asphalt paving, we take care to avoid spills and leaks of bitumen emulsion during both delivery and paving. Group companies are not allowed to mix contaminated soil with other waste materials or to reuse it. Contaminated soil is recycled or disposed of in accordance with applicable regulations.

We operate quarries in accordance with requirements and, where materials need to be transported, we prefer quarries that are closest to the construction site. When rehabilitating quarry sites, we take into account the characteristics of the surrounding area.

Examples from the year 2023

High environmental standards at Rail Baltica construction sites

Construction management at the Rail Baltica construction sites is subject to stricter than usual environmental requirements, which also had to be met at the Tagadi ecoduct site by our subsidiary Tariston. The contractor is required to comply with a significantly greater number of specific conditions on the site than usual in order to protect wildlife and avoid possible violations.

Energy consumption and emissions

The group's largest energy consumers are its asphalt concrete plants and quarries. Although our two asphalt concrete plants have sustainable modern technology and we continue to invest in more environmentally friendly solutions, they are still the sources of our greatest environmental impact and we see them as the main opportunity for further energy savings. The emissions of the plants are continuously measured, as required by the conditions of the air pollution permit, and regular reports are submitted to the Environmental Board.

The quantities of fuels used and CO_2 emitted in asphalt concrete production depend on the amount of asphalt produced during the period. We have taken steps to reduce fuel consumption and CO_2 emissions and will continue to do so.

In 2022, the group signed an agreement with Eesti Energia under which all group companies will use only green energy. The agreement, which is valid until the end of 2030, covers the energy consumption of the group's offices and construction sites. The switch to green energy will reduce our carbon emissions by more than 10,000 tonnes over the eight-year contract period.

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

Examples from the year 2023

Energy efficient buildings

In 2023, the group delivered 36 buildings that meet higher than usual environmental standards. These include, for example, phase 3 of the Medical Campus of Tartu University Hospital, where the new buildings have energy class A, and the new dairy complex of E-Piim, which has energy class B.

Governance

Members of the council and board of Nordecon AS

Council

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

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

A graduate of the department of industrial and civil engineering at Tallinn Polytechnic Institute (now Tallinn University of Technology), Toomas is one of the founders of the Nordecon group and has been involved in the group's activities for 35 years through its board and council. In addition to construction companies, he has held senior positions at various other companies (Tallinna Kaubamaja Grupp AS, AS E-Betoonelement, OÜ Väokivi, Eesti Energia AS, etc.). He is an active member of the community and has contributed to the development of the business environment, education and national defence. He has led the Estonian Chamber of Commerce and Industry for more than 28 years and has participated in the work of the of the Estonian Association of Construction Entrepreneurs for many years. As chairman of the Chamber of Commerce, he was actively involved in the preparations for Estonia's accession to the EU and the euro area. Before Estonia joined the EU, Toomas served for four years as chairman of the consultative committee of the head of the Estonian state delegation in EU accession negotiations (the minister of foreign affairs). For ten years, Toomas was chairman of the Board of Governors of Tallinn University of Technology. He is a lieutenant colonel of the Estonian Defence Forces (in reserve), chairman of the Board of Elders of the Estonian Reserve Officers' Association and president of the NATO-affiliated Interallied Confederation of Reserve Officers (CIOR). He has been awarded the Order of the White Star of the Republic of Estonia (Fifth Class, Third Class and First Class) and he has received various awards from the Estonian Defence Forces, the Estonian Defence League and other governmental and non-governmental organisations. Toomas has also received state awards from several foreign countries. He has an honorary doctorate from Tallinn University of Technology.

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

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

Andri Hõbemägi – representative of AS Nordic Contractors

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

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

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

Vello Kahro – independent member (as defined in the Corporate Governance Code of the Tallinn Stock Exchange)

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

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

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

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

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

Interests (exceeding 5%) in other companies: OÜ Inventor, OÜ Callisto Group, OÜ FinEst Bay Area, Fermi Energia OÜ, Gridio 2.0 OÜ, PAKRI Teadus- ja Tööstuspark OÜ.

Andre Luman – representative of AS Nordic Contractors

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

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

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

Board

According to the articles of association, the board has up to five members. Members of the board are elected and appointed by the council. The term of office of a member of the board is three years. At 31 December 2023, the board of Nordecon AS had four members (Gerd Müller, Priit Luman, Tarmo Pohlak and Maret Tambek). After the reporting date, on 7 January 2024, the service contract of Gerd Müller, chairman of the board, expired. At the date this annual report is authorised for issue, the board has the following members:

Maret Tambek, acting chairman of the board

Maret has been working for the group since 2007 when she joined Nordecon Infra AS as the company's chief financial officer. In spring 2010 she became the group's chief accountant and since July 2014 she has been the group's chief financial officer. Previously Maret worked for 11 years as an auditor at KPMG Baltics OÜ. From 1992 to 1996 she was a specialist at the Estonian Central Bank. Maret graduated from Tallinn Polytechnic Institute (now Tallinn University of Technology), the department of production management and planning. She is a certified public accountant and a member of the Estonian Association of Auditors. Maret has been responsible for the financial management and support services of Nordecon AS since joining the board on 1 May 2017 and acting chairman of the board since 8 January 2024.

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

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

Priit Luman, member of the board

Priit has been a member of the board of Nordecon AS since 1 May 2017. He is responsible for the company's property development and operations in foreign markets. He has worked in different construction management positions at the companies of the Nordecon group since 2006. In 2013 he became director of the building division. Priit graduated from Tallinn University of Technology in 2010 with an MSc *cum laude* in industrial and civil engineering and completed the EMBA programme of Aalto University in 2018. Priit holds the qualification of Chartered Civil Engineer, level 8, awarded by the Estonian Association of Civil Engineers.

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

Interests (over 5%) in other companies: none

Tarmo Pohlak, member of the board

Tarmo Pohlak joined the board of Nordecon AS on 5 June 2023. He is responsible for the company's sales and pre-construction operations and construction management. Previously, Tarmo worked for various companies of the Merko Ehitus group (1997–2017), reaching the position of director of general construction division of AS Merko Ehitus in Estonia and a member of the board of AS Merko Infra. From 2017 to 2019, he was a member of the board and director of construction at AS Oma Ehitaja and from 2019 to spring 2023 a member of the board and director of construction at OÜ US Real Estate. Tarmo graduated from Tallinn University of Technology with an MSc in civil engineering. He holds the qualification of Diploma Civil Engineer, level 7, awarded by the Estonian Association of Civil Engineers.

Membership in the governing bodies of other organisations: none

Interests (over 5%) in other companies: OÜ Pohlak Consult

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

Ethical business practices

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

The group defines corruption as the abuse or misuse of power or information entrusted to a person in connection with their office with the intention of obtaining a personal benefit that directly damages to the group's reputation and business activity, as well as the construction industry as a whole. The group does not provide gifts or other benefits to customers in order to exert influence and gain an unfair advantage.

To prevent corruption and avoid questionable situations, the group has established procedures and policies governing procurement, use of company property, protection of trade secrets, handling of inside information and honest and ethical conduct. The group's intranet includes an anonymous hotline that employees can use to report concerns about corruption, violations of honest and ethical business practices and unfair treatment.

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

As a listed company, the group has rules governing the handling and disclosure of inside information. All employees who have access to inside information are required to sign a statement confirming their compliance with the rules. The group's parent company also observes the information disclosure restrictions arising from the facility security clearance.

The group's management is not aware of any incidents of corruption in 2023 and 2022, including incidents involving group companies or employees, or incidents involving subcontractors or customers that would have required a response from the group. During these periods, no complaints (allegations of corruption, unethical or unfair behaviour or non-compliance with laws or regulations that would have required investigation) were received by the internal hotline and no group company was found guilty of serious non-compliance with laws or regulations. The group did not make any donations to political parties in 2023.

Corporate governance report

Nordecon AS has complied with the corporate governance recommendations (the Corporate Governance Code, CGC) of the Nasdaq Tallinn Stock Exchange since the listing of its shares on the Nasdaq Tallinn Stock Exchange on 18 May 2006. This report provides an overview of the governance of Nordecon AS in 2023 and its compliance with the CGC. It is recommended that an issuer comply with the CGC or explain any non-compliance in its corporate governance report. Nordecon AS complied with the CGC in 2023 unless otherwise stated in this report.

General meeting

Exercise of shareholder rights

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

Shareholders may send questions about the agenda items before the general meeting to the company's registered address or e-mail address that are included in the notice of the general meeting. The company replies to all relevant questions before the general meeting on its website or during the meeting when the relevant agenda item is being discussed. In 2023, shareholders did not ask any questions about the agenda items before the general meeting. All questions and answers are available on the website until information about the next general meeting is published.

All shares issued by Nordecon AS are registered ordinary shares. A shareholder may not demand the 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 the 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 2023, Nordecon AS complied with the subsections of section 1.1 of the CGC that relate to shareholder rights.

Calling of a general meeting and information to be published

The annual general meeting of the shareholders of Nordecon AS was held on 23 May 2023 in Tallinn, in the conference centre of the Radisson Blu Hotel Olümpia. The meeting began at 10 a.m. and was called by the board of Nordecon AS.

An extraordinary general meeting of Nordecon AS was held on 29 November 2023 at 10 a.m. in the conference centre of the Radisson Blu Hotel Olümpia. The meeting was called by the board of Nordecon AS. The item on the agenda was the sale of a 52% stake in Nordecon Betoon OÜ owned by Nordecon AS.

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

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

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

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

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

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

In 2023, Nordecon AS complied with the subsections of section 1.2 of the CGC that relate to calling a general meeting and information to be published.

Conduct of a general meeting

The working language of a general meeting is Estonian. A general meeting may not be chaired by a member of the council or the board.

As a rule, a general meeting is attended by all members of the board, the chairman of the council and, where possible, members of the council and at least one of the auditors. A general meeting is also attended by a candidate for a member of the council if the candidate has not been a member of the council before and the auditor candidate.

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

In 2023, Nordecon AS complied with the subsections of section 1.3 of the CGC that relate to the conduct of a general meeting.

Board

Responsibilities of the board

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

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

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

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

The board and council of Nordecon AS exchanged information in 2023 in accordance with relevant requirements. The board informed the council of the group's performance and financial position on a regular basis.

In 2023, Nordecon AS complied with the subsections of section 2.1 of the CGC that relate to the responsibilities of the board.

Composition and remuneration of the board

Composition of the board

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

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

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

In 2023, the board had the following members:

	Position/area of responsibility	Beginning of term of office	End of term of office
Gerd Müller	**Chairman of the Board** Overall management of Nordecon AS and the group	8 January 2018	7 January 2024
Priit Luman	**Member of the Board** Property development and foreign markets	1 May 2017	30 April 2026
Tarmo Pohlak	**Member of the Board** Sales and pre-construction and construction	5 June 2023	4 June 2026
Maret Tambek	**Member of the Board** Financial management and support services	1 May 2017	30 April 2026

Remuneration of the board

Information about the remuneration of the board is disclosed in the *Remuneration report*.

In 2023, Nordecon AS complied with the subsections of section 2.2 of the CGC, that relate to the composition and remuneration of the board.

Conflicts of interest

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

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

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

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

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

In 2023, Nordecon AS complied with the subsections of section 2.3 of the CGC that relate to conflicts of interest.

Council

Responsibilities of the council

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

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

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

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

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

The work of the council is organised by the chairman. The chairman of the council determines the agenda of council meetings, chairs council meetings, monitors the effectiveness of the work of the council, organises swift delivery of information to council members, ensures that council members have sufficient time for preparing a resolution and reviewing the information received and represents the company in relations with the company's board. The council had four meetings in 2023. In addition, on three occasions resolutions were adopted electronically. All members of the council participated in the meetings and in the electronic voting.

In 2023, Nordecon AS complied with the subsections of section 3.1 of the CGC that relate to the responsibilities of the council.

Composition and remuneration of the council

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

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

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

The chairman's basic monthly service fee is set at €7,200, the vice-chairman's basic monthly service fee at €2,400 and other council members' basic monthly service fee at €960, effective from 1 June 2020. The annual general meeting that convened on 23 May 2023 decided to set the chairman's basic monthly service fee at €9,500, the vice-chairman's basic monthly service fee at €3,200 and other council members' basic monthly service fee at €1,300.

The service fees of the members of the council of Nordecon AS for 2023 amounted to €179 thousand and associated social security charges totalled €59 thousand (2022: €150 thousand and €50 thousand, respectively).

In 2023, the council had the following members:

Name	Position	Beginning of term of office	End of term of office	Remuneration 2023 (€'000)	Remuneration 2022 (€'000)
Toomas Luman	Chairman of the Council, representative of AS Nordic Contractors	9 January 2006	20 May 2025	103	86
Andri Hõbemägi	Vice-chairman of the Council, representative of AS Nordic Contractors	25 May 2013	24 May 2028	34	28
Vello Kahro	Member of the Council, independent	20 May 2015	20 May 2025	14	12
Sandor Liive	Member of the Council, independent	20 May 2015	20 May 2025	14	12
Andre Luman	Member of the Council, representative of AS Nordic Contractors	20 May 2020	20 February 2025	14	12

In 2023, Nordecon AS complied with the subsections of section 3.2 of the CGC that relate to council members' responsibilities.

Conflicts of interest

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

A member of the council may not vote at a meeting in matters concerning provision of consent for a transaction between Nordecon AS and the member of the council or a similar conflict of interest involving a party connected with the member of the council. A member of the council may not compete with Nordecon AS without the consent of the general meeting.

In 2023, Nordecon AS complied with the subsections of section 3.3 of the CGC that relate to council members' responsibilities.

Cooperation of the board and the council

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

In 2023, the board and the council worked closely in monitoring the implementation of the company's development plan and the achievement of the company's strategic objectives. The board observes the council's strategic instructions and discusses strategic management issues with the council on a regular basis.

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

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

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

In 2023, Nordecon AS complied with the subsections of sections 4.1 to 4.3 of the CGC that relate to cooperation between the board and the council.

Application of the diversity policy

Under subsection 4 of section 24^2 of the Estonian Accounting Act, a large undertaking whose securities that carry voting rights have been admitted for trading on a regulated securities market of Estonia or another contracting state (party to the EEA agreement) has to describe in its corporate governance report the diversity policy applied to its board and higher governing body and its results during the reporting period. If no diversity policy has been applied during the period, the reasons for this should be explained in the corporate governance report.

The group did not apply a diversity policy in 2023 because both managers and employees are selected based on the group's interests and people are hired and appointed based on their education, skills and prior work experience. However, the group observes the policy of not discriminating against any candidate due to their gender or on any other basis.

Disclosure of information

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

In disseminating information, Nordecon AS strives to treat all shareholders as equally and fairly as possible and to communicate all significant events without delay. Adherence to 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 to notify shareholders and investors are the information system of the Nasdaq Tallinn Stock Exchange and the company's website www.nordecon.com. In those channels, information is released simultaneously in Estonian and in English.

The company discloses information in accordance with the rules of the Nasdaq Tallinn Stock Exchange and the provisions of the Estonian Securities Market Act. In 2023, the company's threshold for notifying of significant construction contracts was €2.7 million. Nordecon AS made 46 stock exchange announcements in 2023, which were released concurrently via the information system of the Nasdaq Tallinn Stock Exchange and the company's website.

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

Meetings with investors and financial analysts

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

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

In 2023, Nordecon AS complied with chapter 5 of the CGC that relates to the disclosure of information.

There were no meetings with investors in 2023.

The company has not disclosed the time and location of the meetings held with analysts or the presentations made to analysts in advance so that shareholders could participate as required by section 5.6. Compliance with the requirement is often technically difficult to achieve.

The company believes that by disclosing information on its website, and being open and approachable in its relations with shareholders, it has created sufficiently good alternatives and conditions to ensure equal access to information to all shareholders. The company does not share inside information at meetings with financial analysts and, when communicating information, relies on published financial information and presentations.

Financial reporting and auditing

Financial reporting

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

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

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

The company has disclosed in the financial statements financial information on companies that have not been consolidated but in which the company has a significant interest (note 11) and transactions with shareholders (note 36).

In 2023, Nordecon AS complied with the subsections of section 6.1 of the CGC, except for 6.1.1, that relate to financial reporting.

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

Auditing

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

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

The auditor's responsibilities and fee and the timeframe of services provided are set out in the audit services agreement signed with the auditor. Under the agreement, the auditor performs the audit in accordance with International Standards on Auditing (Estonia). The auditor can express an opinion on the company's activities without any constraints imposed by the company. The fees Nordecon AS paid to the auditors in 2023 totalled €75 thousand.

The auditor provided the audit committee formed by the council with a written memorandum on the company's audit of 2023, the auditor's findings and other significant matters that were discussed with the board.

In 2023, Nordecon AS complied with the subsections of section 6.2 of the CGC that relate to auditing.

Share and shareholders

Share information

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

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

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

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

Summarised trading results

Share trading history

Price, €	2023	2022	2021	2020	2019
Open	0.69	1.21	1.15	1.04	0.91
High	0.93	1.29	1.84	1.21	1.09
Average	0.75	0.88	1.29	1.04	0.99
Low	0.61	0.65	1.08	0.78	0.89
Last closing price	0.62	0.69	1.20	1.14	1.03
Traded volume (number of securities traded)	1,749,055	2,599,303	7,037,117	6,021,881	3,254,930
Turnover, € million	1.30	2.40	9.32	5.99	3.24
Listed volume (31 Dec), thousand	32,375	32,375	32,375	32,375	32,375
Market capitalisation (31 Dec), € million	20.14	22.34	38.85	36.91	33.35

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

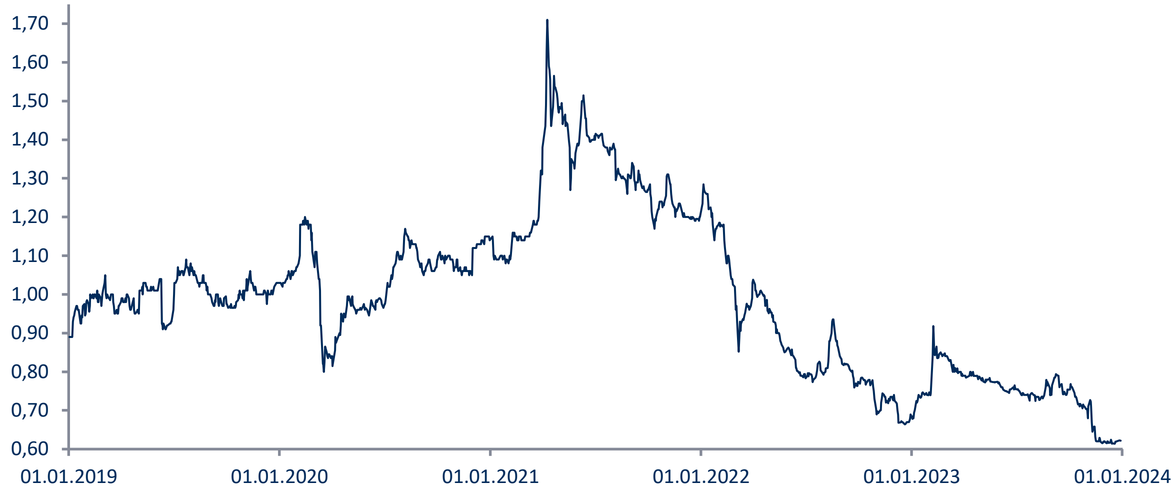
Ratio	2023	2022	2021	2020	2019
P/E	(20.8)	(6.0)	(6.0)	14.6	9.6
P/B	0.9	0.9	1.5	1.1	1.1

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

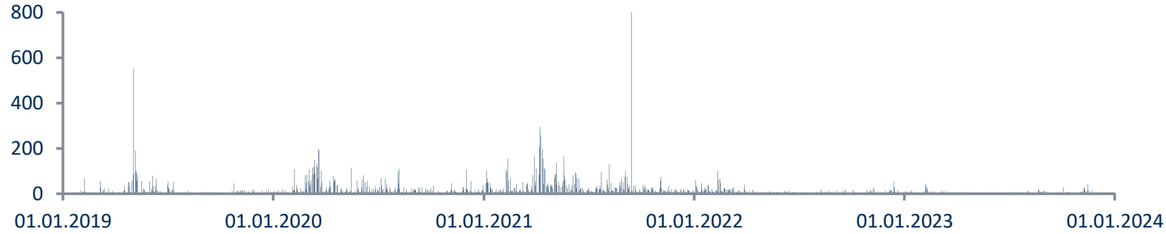
P/B = the period's last closing price of the share / (equity attributable to owners of the parent / number of shares outstanding)

Movements in the price and turnover of the Nordecon AS share in 2019–2023

Movements in share price, €



Daily turnover, €'000



Movement of the share price compared with the OMX Tallinn index in 2019–2023

Index/equity	1 January 2019*	31 December 2023	+/-%
OMX Tallinn	1,162.86	1,768.56	52.09%
NCN1T	€0.89	€0.62	(30.11)%

* Closing price on the Nasdaq Tallinn Stock Exchange at 31 December 2018.

Shareholder structure

Largest shareholders of Nordecon AS at 31 December 2023

Shareholder	Number of shares	Ownership interest (%)
AS Nordic Contractors	16,563,145	51.16
Luksusjaht AS	4,322,342	13.35
Toomas Luman	763,200	2.36
Olegs Radcenko	574,200	1.77
Lembit Talpsepp	374,500	1.16
Nõmme Erahariduse SA	370,370	1.14
SEB Pank AS clients	300,000	0.93
OÜ Alar Invest	255,000	0.79
Genadi Bulatov	250,600	0.77
Endel Palla	200,000	0.62

Shareholder structure of Nordecon AS at 31 December 2023

	Number of shareholders	Ownership interest (%)
Shareholders with interest exceeding 5%	2	64.51
Shareholders with interest from 1% to 5%	4	6.43
Shareholders with interest below 1%	6,660	26.44
Holder of own (treasury) shares	1	2.62
Total	**6,667**	**100**

Shareholder structure by shareholder category at 31 December 2023

Shareholders by business line and legal form	Number of shares	Ownership interest (%)
Companies	23,819,902	73.57
Individuals	7,692,625	23.76
Financial institutions (banks, investment funds)	862,956	2.67
Total	**32,375,483**	**100**

Shareholder structure by shareholder domicile at 31 December 2023

Domicile	Number of shares	Ownership interest
Estonia	31,010,707	95.79
Latvia	745,714	2.30
Lithuania	344,520	1.06
Finland	219,162	0.68
Germany	14,072	0.04
Sweden	12,566	0.03
Netherlands	11,764	0.03
USA	7,832	0.02
Denmark	2,627	0.01
Other	6,519	0.04
Total	**32,375,483**	**100**

Shares controlled by members of the council of Nordecon AS at 31 December 2023

Council member		Number of shares	Ownership interest (%)
Toomas Luman (AS Nordic Contractors, OÜ Luman ja Pojad)*	Chairman of the Council	17,471,345	53.96
Andri Hõbemägi	Member of the Council	50,000	0.15
Vello Kahro	Member of the Council	10,000	0.03
Sandor Liive	Member of the Council	0	0.00
Andre Luman	Member of the Council	25,000	0.08
Total		**17,556,345**	**54.22**

* Companies controlled by the individual

Shares controlled by members of the board of Nordecon AS at 31 December 2023

Board member		Number of shares	Ownership interest (%)
Maret Tambek	Acting chairman of the Board	0	0.00
Priit Luman	Member of the Board	7,000	0.02
Tarmo Pohlak	Member of the Board	3,942	0.01
Total		**10,942**	**0.03**

For information about share options, see the *Remuneration report*.

Restrictions related to shares

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

Dividend policy

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

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

Dividends distributed by Nordecon AS in previous years:

Year of pay-out	Total dividend paid €'000	Number of shares, '000	Dividend per share €	Dividend pay-out ratio *
2019	1,891	31,529	0.06	55.9%
2020	0	31,529	0	0
2021	3,778	31,529	0.12	65%
2022	0	31,529	0	0
2023	0	31,529	0	0

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

Remuneration report

The remuneration report contains information about the remuneration and other benefits provided to the board of Nordecon AS in 2023.

The company's remuneration policy is aimed at creating and maintaining a fair, motivating, competitive, transparent and lawful remuneration system as well as attracting and retaining professional and competent executive staff. The company's remuneration system supports and rewards for performance improvement and the creation of a work environment that prioritises the achievement of business goals. The remuneration of the members of the board is determined by taking into account their tasks, responsibilities and decision-making powers, including the relevance of their decisions to the company's operations. The remuneration additionally depends on the group's financial position and current performance. The remuneration of the members of the board is decided by the company's council. In determining remuneration, the council also considers criteria such as the company's measurable performance, short- and long-term goals and non-monetary performance.

Remuneration of the board

A member of the board is paid a monthly service fee, which is fixed in the service contract. The council decides the remuneration of members of the board based on an appraisal of their work. The council appraises a board member's work by taking into account the board member's responsibilities and activities, the activities of the entire board as well as the company's financial position, current financial performance and future prospects and, if necessary, compares these with the corresponding indicators of other companies in the same industry. The service fee includes a 10% fee for observing the prohibition on competition.

Under the service contract, a member of the board may also be eligible for the following additional monetary incentives:

- Performance-based pay for achieving the targets set for the financial year. Depending on the board member's area of responsibility, the basis for performance-based pay is consolidated EBITDA (operating profit plus amortisation and depreciation expense) or the EBITDA for a market/company of the group before the effect of the performance-based pay of members of the board. Each targeted EBITDA level is assigned a coefficient. Performance-based pay is calculated by multiplying the service fee with the coefficient. Board members are not eligible for performance-based pay if the targets for the year are not achieved or performance-based pay was assigned based on data that proved (e.g. after the audit) materially inaccurate.
- Benefits for observing the prohibition on competition after the expiry of the service contract (for a member of the board up to six-fold and for the chairman of the board up to 12-fold average monthly service fee together with performance-based pay). The payment of benefits is justified because board members are subject to a prohibition on competition which restricts their activities during the period for which the benefits are paid.
- Benefits payable on the expiry of the service contract (for a member of the board up to six-fold and for the chairman of the board up to 12-fold average monthly service fee together with performance-based pay). A board member is not eligible for the benefits if the service contract is terminated at the board member's request, the board member is removed due to breach of the law, the board member has breached the service contract, the board member's activities have caused direct damage to the company or the parties agree to extend the board member's service contract for another term of office.

Service fees of the board in 2023

The service fees and social security charges of the board of Nordecon AS for 2023 totalled €775 thousand and €255 thousand, respectively (2022: €417 thousand and €138 thousand, respectively). The fees include benefits of €222 thousand paid in connection with the expiry of a service contract (2022: €0) and associated social security charges of €73 thousand.

€'000	Service fee	Other benefits	Performance-based pay	Total remuneration
Gerd Müller (chairman of the board)	434	16	0	450
Priit Luman (member of the board)	118	17	0	135
Tarmo Pohlak (member of the board)	86	11	0	97
Maret Tambek (member of the board)	137	12	0	149

Other benefits eligible to the members of the board include the use of a company car, telephone compensation, additional paid leave, training, etc. Other benefits provided in 2023 comprise company car, telephone and training expenses.

Service fees of the board, average remuneration of the parent's full-time employees and the group's EBITDA

€'000	2023	2022	2021	2020	2019
Service fees of the board*					
Gerd Müller (chairman of the board)	212	188	168	169	176
Priit Luman (member of the board)	118	103	90	93	98
Tarmo Pohlak (member of the board)	86	-	-	-	-
Maret Tambek (member of the board)	137	126	111	109	103
Ando Voogma (member of the board)	-	-	-	61	103
Termination benefits of the board					
Gerd Müller	222	-	-	-	-
Fees for managing a subsidiary of the group					
Maret Tambek	-	-	0.09	0.09	0.09
Group EBITDA	3,938	5,766	(797)	7,003	7,311
Average annual remuneration of full-time employees	35	31	29	30	26

** Terms of office of members of the board:*

Gerd Müller	*8 January 2018 – 7 January 2024*
Priit Luman	*1 May 2017 – 30 April 2026*
Tarmo Pohlak	*5 June 2023 – 4 June 2026*
Maret Tambek	*1 May 2017 – 30 April 2026*
Ando Voogma	*1 August 2017 – 31 July 2020*

The company does not apply the option of recovering variable pay.

The remuneration system of the members of the board has been applied without exception.

Management's confirmation and signatures

The board confirms that the directors' report presents fairly the operations, development, financial performance and financial position of the group consisting of the parent and all consolidated entities and contains a description of the main risks and uncertainties.

Maret Tambek	Acting chairman of the Board	*signed digitally*	18 April 2024
Priit Luman	Member of the Board	*signed digitally*	18 April 2024
Tarmo Pohlak	Member of the Board	*signed digitally*	18 April 2024

Consolidated financial statements

Consolidated statement of financial position

€'000	Note	31 December 2023	31 December 2022
ASSETS			
Current assets			
Cash and cash equivalents	7	11,892	7,238
Trade and other receivables	8	37,010	48,084
Prepayments	9	1,789	6,728
Inventories	10	25,879	25,454
Total current assets		**76,570**	**87,504**
Non-current assets			
Other investments		76	76
Trade and other receivables	8	9,113	8,604
Investment property	12	5,517	8,347
Property, plant and equipment	13	14,292	17,669
Intangible assets	14	14,964	15,134
Total non-current assets		43,962	**49,830**
TOTAL ASSETS		**120,532**	**137,334**
LIABILITIES			
Current liabilities			
Borrowings	15	10,188	17,193
Trade payables	17	39,855	65,144
Other payables	18	9,241	8,324
Deferred income	19	20,602	6,996
Provisions	20	1,129	1,288
Total current liabilities		**81,015**	**98,945**
Non-current liabilities			
Borrowings	15	8,563	6,311
Trade payables	17	6,011	2,769
Provisions	20	2,405	2,049
Total non-current liabilities		**16,979**	**11,129**
TOTAL LIABILITIES		**97,994**	**110,074**
EQUITY			
Share capital	21	14,379	14,379
Own (treasury) shares		(660)	(660)
Share premium		635	635
Statutory capital reserve	21	2,554	2,554
Translation reserve	21	3,786	3,316
Retained earnings		919	2,691
Total equity attributable to owners of the parent		**21,613**	**22,915**
Non-controlling interests		**925**	**4,345**
TOTAL EQUITY		**22,538**	**27,260**
TOTAL LIABILITIES AND EQUITY		**120,532**	**137,334**

The notes on pages 65-118 are an integral part of these consolidated financial statements.

Consolidated statement of comprehensive income

€'000	Note	2023*	Of which continuing operations	2022*	Of which continuing operations
Revenue	24	278,382	186,464	322,860	220,285
Cost of sales	28	(268,056)	(182,655)	(314,365)	(216,286)
Gross profit		**10,326**	**3,809**	**8,495**	**3,999**
Marketing and distribution expenses		(715)	(497)	(490)	(318)
Administrative expenses	29	(8,915)	(6,564)	(7,287)	(5,674)
Other operating income	30	349	286	2,049	2,005
Other operating expenses	30	(489)	(465)	(462)	(426)
Operating profit (loss)		**556**	**(3,431)**	**2,305**	**(414)**
Finance income	31	5,510	613	258	242
Finance costs	31	(3,414)	(3,356)	(3,740)	(3,709)
Net finance income (costs)		**2,096**	**(2,743)**	**(3,482)**	**(3,467)**
Profit (loss) before income tax		**2,652**	**(6,174)**	**(1,177)**	**(3,881)**
Income tax expense	32	(596)	(244)	(264)	(218)
Profit (loss) for the period		**2,056**	**(6,418)**	**(1,441)**	**(4,099)**
Of which profit for the period from discontinued operation	23	***8,474***	-	***2,658***	-
Other comprehensive income					
Items that may be reclassified subsequently to profit or loss					
Exchange differences on translating foreign operations		470	470	1,368	1,368
Total other comprehensive income		**470**	**470**	**1,368**	**1,368**
TOTAL COMPREHENSIVE INCOME (EXPENSE)		**2,526**	**(5,948)**	**(73)**	**(2,637)**
Profit (loss) attributable to:					
- Owners of the parent	22	(942)	(7,601)	(3,650)	(5,077)
- Non-controlling interests		2,998	1,183	2,209	978
Profit (loss) for the period		**2,056**	**(6,418)**	**(1,441)**	**(4,099)**
Comprehensive income (expense) attributable to:					
- Owners of the parent		(472)	(7,131)	(2,282)	(3,615)
- Non-controlling interests		2,998	1,183	2,209	978
Comprehensive income (expense) for the period		**2,526**	**(5,948)**	**(73)**	**(2,637)**
Earnings per share attributable to owners of the parent					
Basic earnings per share (€)	22	(0.03)	(0.24)	(0.12)	(0.16)
Of which basic earnings per share from discontinued operation		*0.28*	-	*0.08*	-
Diluted earnings per share (€)	22	(0.03)	(0.24)	(0.12)	(0.16)

* Including both continuing and discontinued operations

The notes on pages 65–118 are an integral part of these consolidated financial statements.

Consolidated statement of cash flows

€'000	Note	2023	2022
Cash flows from operating activities			
Cash receipts from customers[1]		345,372	390,195
Cash paid to suppliers[2]		(294,828)	(351,483)
VAT paid		(12,337)	(8,880)
Cash paid to and for employees		(24,715)	(26,075)
Income tax paid		(615)	(291)
Net cash from operating activities		**12,877**	**3,466**
Cash flows from investing activities			
Paid on acquisition of property, plant and equipment		(362)	(688)
Paid on acquisition of intangible assets		0	(122)
Proceeds from sale of property, plant and equipment		431	816
Sale of subsidiaries, net cash flow	23	(970)	0
Loans provided		(531)	(25)
Repayments of loans provided		22	25
Dividends received		12	6
Interest received		50	9
Net cash from (used in) investing activities		**(1,348)**	**21**
Cash flows from financing activities			
Proceeds from loans received	15	1,197	4,581
Repayments of loans received	15	(2,291)	(4,879)
Payments of lease principal	15, 16	(3,060)	(3,481)
Interest paid		(1,232)	(984)
Dividends paid		(1,494)	(488)
Other payments		6	(8)
Net cash used in financing activities		**(6,874)**	**(5,259)**
Net cash flow		**4,655**	**(1,772)**
Cash and cash equivalents at beginning of year		**7,238**	**9,031**
Effect of movements in foreign exchange rates		(1)	(21)
Increase (decrease) in cash and cash equivalents		4,655	(1,772)
Cash and cash equivalents at end of year		**11,892**	**7,238**

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

[2] Line item Cash paid to suppliers includes VAT paid.

The notes on pages 65–118 are an integral part of these consolidated financial statements.

Consolidated statement of changes in equity

€'000	Equity attributable to owners of the parent							Non-controlling interests	Total
	Share capital	Treasury shares	Capital reserve	Share premium	Translation reserve	Retained earnings	Total		
Balance at 31 December 2021	**14,379**	**(660)**	**2,554**	**635**	**1,948**	**6,341**	**25,197**	**2,929**	**28,126**
Loss for the period	0	0	0	0	0	(3,650)	(3,650)	2,209	(1,441)
Other comprehensive income	0	0	0	0	1,368	0	1,368	0	1,368
Transactions with owners									
Dividend distribution	0	0	0	0	0	0	0	(793)	(793)
Total transactions with owners	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**(793)**	**(793)**
Balance at 31 December 2022	**14,379**	**(660)**	**2,554**	**635**	**3,316**	**2,691**	**22,915**	**4,345**	**27,260**
Profit for the period	0	0	0	0	0	(942)	(942)	2,998	2,056
Other comprehensive income	0	0	0	0	470	0	470	0	470
Change in non-controlling interests due to sale of subsidiaries	0	0	0	0	0	0	0	(4,915)	(4,915)
Other movements	0	0	0	0	0	(830)	(830)	0	(830)
Transactions with owners									
Dividend distribution	0	0	0	0	0	0	0	(1,503)	(1,503)
Total transactions with owners	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**(1,503)**	**(1,503)**
Balance at 31 December 2023	**14,379**	**(660)**	**2,554**	**635**	**3,786**	**919**	**21,613**	**925**	**22,538**

For further information about share capital and other components of equity, see note 21.

The notes on pages 65–118 are an integral part of these consolidated financial statements.

NOTE 1. General information about the group

Nordecon AS is a company incorporated and domiciled in Estonia. The address of the company's registered office is Toompuiestee 35, Tallinn 10149, Estonia. The company's controlling shareholder and the party controlling the Nordecon group is AS Nordic Contractors that holds 51.16% of the shares in Nordecon AS. Through AS Nordic Contractors, the Nordecon group's ultimate controlling party is Toomas Luman. The Nordecon AS shares have been listed on the Nasdaq Tallinn Stock Exchange since 18 May 2006.

The consolidated financial statements of Nordecon AS (also referred to as 'the company' and 'the parent') as at and for the year ended 31 December 2023 comprise the company and its subsidiaries (together referred to as 'the group') and the group's interests in associates. The revenues, expenses and cash flows of Nordecon Betoon OÜ and NOBE Rakennus OY were consolidated until 30 November 2023. The group's primary activities are building and infrastructure construction (as a general contractor) and, within strategic limits, real estate development. In addition to Estonia, the group operates through its subsidiaries and associate in Ukraine and Sweden. In the reporting period, the group also operated in Finland. The operations of the Lithuanian subsidiary have been suspended.

NOTE 2. Statement of compliance and basis of preparation

Statement of compliance

The consolidated financial statements of the Nordecon AS group as at and for the year ended 31 December 2023 have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS EU). The parent's primary financial statements are presented in note 37 to the consolidated financial statements in accordance with the requirements of the Estonian Accounting Act.

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

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

The board authorised these consolidated financial statements for issue on 18 April 2024.

Basis of measurement

The consolidated financial statements are prepared under the historical cost convention except for investment properties which are measured at fair value. The methods used to measure fair value are described in note 4.

Functional and presentation currency

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

Use of significant accounting estimates and judgements

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

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

In 2023, most of the group's business was conducted in Estonia. During the period, the Estonian economy contracted by 3% compared to 2022. Trade, real estate activities and agriculture had the greatest positive impact while energy, transport, manufacturing and construction had a significant negative impact. Private consumption declined by 1.5% and government consumption by 1.9% in 2023. Investment decreased by 3.4%.

In 2023, Estonian construction companies' output (construction volume) decreased by 6% overall and by 7% in the Estonian market. According to preliminary data from Statistics Estonia, Estonian construction companies' total output in Estonia and abroad amounted to €4.1 billion, the figure comprising building construction of €2.6 billion and infrastructure construction of €1.5 billion. Building construction decreased by 11%, while infrastructure construction (incl. roads, port facilities, pipelines, telecommunications and power lines) grew by 4% compared with 2022. In building construction, both new build and rehabilitation and reconstruction volumes decreased. The growth in infrastructure construction was mainly driven by rehabilitation and reconstruction.
According to Statistics Estonia, the construction price index has increased for two years in a row. In 2023, the construction price index rose by 6.1% compared to 2022, reflecting increases of 7.0% for labour, 9.8% for the use of machinery and 5.2% for materials. Despite the rise in the construction price index, input prices have more or less stabilised as a result of weakening demand, but not enough to trigger a new increase in demand as previously planned resources are no longer sufficient to make the planned investments. The market continues to be strongly influenced by public investment, which will generally decline in 2024.

The group's management has therefore had to make estimates and use judgement in an environment where reliable, broad-based information on the market prices of some assets is often not available and where the outlook for the construction and property markets tends to be uncertain due to global economic developments.

Critical estimates (E) and judgements (J) that have the most significant effect on the financial statements relate to the following areas:

Recognition of construction contract revenue by reference to the stage of completion method (note 25) (E)

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

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

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

Determination of the net realisable value of inventories (note 10) (E)

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

The group is involved in real estate development in Estonia and apartments built for sale are recognised as inventories until their sale (until the signature of the real right contract, see note 5 for an explanation of the real right contract). The group estimates the carrying amounts of unsold apartments carried in inventories by comparing their carrying amounts to the actual sales prices of similar apartments sold shortly before or after the reporting date.

In estimating the net realisable value of properties (land) acquired for development, the group relies on the calculations of its own property specialists. Most of the properties have a detailed spatial plan or proceedings for its adoption have been started. The properties are located in Estonia in the cities of Tartu, Pärnu and Narva and in the vicinity of Tartu. The group measured the net realisable values of the properties using the residual value method, which requires extensive estimation. Under the residual value method, the value of a property is the sum remaining after deducting estimated construction and other development costs from the estimated proceeds from the sale of the development project planned for the property. The valuations, which were performed by the group's property specialists separately for each property, took into account the opportunities and specific features of the detailed spatial plan or the planned building rights (incl. the region and location of the property).

Based on the valuation results, there was no need to write the properties down. A sensitivity analysis of the valuations is presented in the notes to the consolidated financial statements.

Classification (J) and measurement (E) of investment properties (notes 4 and 12)

On initial recognition, properties are classified to inventories or investment properties on the basis of management's intentions regarding their use. On subsequent reclassification, properties are transferred from one category to another based on the change in their use or management's intentions regarding their further use. Investment properties comprise properties held to earn rentals or for capital appreciation or both.

Investment properties are measured to fair value using three methods: the discounted cash flow method, the sales comparison method or the existence of a sales contract (under the law of obligations) at the reporting date (see note 5 for information on the application of the methods).

The group's investment properties are located in Estonia in Pärnu and in Ukraine in Shastliv village near Kiev, next to the Kiev–Borispol motorway. The properties were measured using the sales comparison method and the discounted cash flow method. The latter was used for properties located in areas where the number of sales transactions involving properties without buildings was insufficient during the period. Each property was measured separately, taking into account the opportunities and specific features of the detailed spatial plan or planned building rights (incl. the location of the property). The fair value of investment properties located in Estonia as at the end of the reporting period was measured using estimates. The carrying amount of the properties was reduced by €30 thousand in total. Russia's military invasion of Ukraine in February 2022 and continuing military aggression against Ukraine have made Ukraine's economic situation highly unstable. Due to the war, the inputs used to measure the fair value of investment properties are volatile and therefore it was not possible to obtain a valuation report from an independent internationally recognised appraiser regarding the fair value of the group's Ukrainian investment property as at 31 December 2023 and 31 December 2022.

Provisions and contingent liabilities (notes 20 and 34) (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 to cover those expenditures for which it was originally recognised.

The group makes provisions for warranty expenses. Provisions are recognised after the completion of construction activity and the delivery of the project to the customer. Warranty periods generally extend from two to three years in general construction and civil engineering and from two to five years in road construction. The amount of post-construction warranty liabilities is estimated based on historical data on actual warranty expenses, which generally extend from 0.15% to 1% of total contract costs. Depending on the complexity of the project, the group may recognise a warranty provision that exceeds historical data.

The group's activities include extraction of various aggregates and fillers from quarries in order to obtain more favourably priced inputs for road construction and maintenance projects. As a rule, the extraction of raw material imposes the obligation to immediately make a provision for subsequent rehabilitation costs even though the payments will have to be made or the work will have to be done when extraction operations have ended. The group calculates a rehabilitation provision by dividing the estimated rehabilitation expenditure, i.e. the ultimate known costs of restoring the quarry area, by the maximum quantities permitted to be extracted or, if lower, the quantities planned to be extracted. The cost per tonne thus obtained is used to recognise and subsequently adjust the provision based on the actual quantities extracted during the period. Management reassesses the group's rehabilitation obligations, the quantities to be extracted and the sufficiency of the rehabilitation provisions recognised once a year.

Measurement of goodwill (note 14) (E)

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

The projected net cash flows, which include both working capital investments and capital expenditures incurred to maintain assets in the state they are in at the time the estimate is made, are discounted by using the weighted average cost of capital (both debt and equity capital) as the discount rate. The net operating cash flows of CGUs do not depend on the capital structure of the specific company. Therefore, in determining the discount rate, the proportions of debt and equity capital are identified based on the industry's average ratios in the Damodaran database. The discount rate used to estimate the value in use of the group's CGUs was 11.6%. The group did not identify a need for recognising an impairment loss for goodwill as at 31 December 2023 or 31 December 2022.

Measurement of loans provided (note 8) (E)

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

The repayment of the loan the group has provided to its Ukrainian associate for the acquisition and development of a property depends on how successfully the real estate project can be realised. The group measures the value of the development project to be carried out with the assistance of an independent internationally recognised appraiser. Significant valuation inputs include the project's cash flows (expected rental prices), discount rates, the vacancy rates of the commercial premises to be rented out and the time factor of the realisation of the project (delays in completion). Russia's military invasion of Ukraine in February 2022 and continuing military aggression against Ukraine have made Ukraine's economic situation highly unstable. Therefore it was not possible to obtain a valuation report from an independent internationally recognised appraiser regarding the fair value of the group's Ukrainian development project as at 31 December 2023 and 31 December 2022. The property has not been damaged in the war and the group has control of the property.

NOTE 3. New standards, amendments and interpretations

New standards, amendments and interpretations effective for the reporting period

The following new standards, amendments and interpretations became effective for the group from 1 January 2023. Their application did not have a material impact on the group's financial statements.

Amendments to IAS 1 *Presentation of Financial Statements*

The amendments clarify that the classification of liabilities as current or non-current is based solely on the company's right to defer settlement at the end of the reporting period. The company's right to defer settlement for at least 12 months from the reporting date need not be unconditional but must have substance. The classification is not affected by management's intentions or expectations about whether and when the company will exercise its right. The amendments also clarify the situations that are considered settlement of a liability.

Amendments to IAS 1 *Presentation of Financial Statements* and IFRS Practice Statement 2 *Making Materiality Judgements*

The amendments to IAS 1 aim to help entities provide accounting policy disclosures that are more useful by:

- requiring companies to disclose their material accounting policies rather than their significant accounting policies;
- clarifying that accounting policies related to immaterial transactions, other events or conditions are themselves immaterial and as such need not be disclosed; and
- clarifying that not all accounting policies that relate to material transactions, other events or conditions are themselves material to a company's financial statements.

The International Accounting Standards Board also amended IFRS Practice Statement 2 to include guidance and two additional examples on the application of materiality to accounting policy disclosures. The amendments are consistent with the refined definition of material: "*Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements.*".

Amendments to IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*

The amendments introduce a new definition for accounting estimates: clarifying that they are monetary amounts in the financial statements that are subject to measurement uncertainty. The amendments also clarify the relationship between accounting policies and accounting estimates by specifying that a company develops an accounting estimate to achieve the objective set out by an accounting policy.

Amendments to IAS 12 *Income Taxes*

The amendments clarify the accounting for deferred tax on transactions that involve recognising both an asset and a liability with a single tax treatment related to both. The amendments narrow the scope of the initial recognition exemption so that it does not apply to transactions that give rise to equal and offsetting temporary differences. As a result, companies will need to recognise a deferred tax asset and a deferred tax liability for temporary differences arising on initial recognition of a lease and a decommissioning provision.

New standards, amendments and interpretations not yet effective

The following new or revised standards are effective for reporting periods beginning after 1 January 2024 and early application is permitted. The group has not early adopted the new or revised standards and does not expect the amendments to have a material effect on its financial statements when applied.

- Amendments to IAS 1 *Classification of Liabilities as Current or Non-current*.
- Amendments to IAS 1 *Non-current Liabilities with Covenants.*
- Amendments to IAS 7 and IFRS 7 *Supplier Finance Arrangements*.
- Amendments to IFRS 16 *Lease Liability in a Sale and Leaseback*.
- Amendments to IAS 21 *Lack of Exchangeability*.

NOTE 4. Material accounting policies

Basis of consolidation

Business combinations of independent entities and acquisition of goodwill

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

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

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

Business combinations of entities under common control

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

Subsidiaries

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

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

Associates

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

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

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

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

Joint operations

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

Translation of the financial statements of foreign subsidiaries

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

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

	Date	Swedish krona (SEK)	Ukrainian hryvnia (UAH)*
€1	31 December 2023	11.096	42.2079
€1	31 December 2022	11.1218	38.9510

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

Financial assets

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

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

Classification of financial assets

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

Financial assets measured at amortised cost

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

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

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

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

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

Cash and cash equivalents

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

Financial liabilities

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

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

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

Inventories

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

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

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

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

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

Investment property

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

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

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

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

Property, plant and equipment

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

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

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

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

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

Asset class	Useful life in years	Asset class	Useful life in years
Land	Not depreciated	Machinery and equipment	3–12
Buildings	33	Other property, plant and equipment	3–10

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 items of property, plant and equipment are reviewed at least at each financial year-end and if expectations differ from previous estimates the changes are recognised prospectively.

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

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

Borrowing costs

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

Intangible assets

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

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

Asset class	Useful life in years	Asset class	Useful life in years
Goodwill	Not depreciated	Software licences	3–5
Trademarks	Not depreciated		

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

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

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

Goodwill

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

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

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

Research and development expenditures

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

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

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

Impairment of assets

Measurement of fair value is described in note 5.

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

Financial assets

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

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

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

Non-financial assets

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

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

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

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

Reversal of an impairment loss

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

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

Provisions and contingent liabilities

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

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

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

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

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

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

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

Leases

The group as a lessee

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

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

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

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

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

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

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

Short-term leases and leases for which the underlying asset is of low value are recognised as an expense on a straight-line basis over the lease term. In determining the lease term, management assesses how probable it is that the group will exercise, or not exercise, an extension or termination option, considering all relevant facts and circumstances that create an economic incentive to exercise, or not exercise, an option. Periods covered by an option to extend the lease (or periods covered by an option to terminate the lease) are only included in the lease term if it is reasonably certain that the extension option will be exercised (or the termination option will not be exercised). Management reviews its assessments regarding the extension and termination options upon the occurrence of a significant event or a significant change in circumstances that affects the probability of the group exercising an option or when there is a change in the non-cancellable period of the lease.

The group as a lessor

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

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

Earnings per share

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

Income tax

Deferred tax

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

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

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

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

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

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

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

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

Information about income tax liabilities is provided in note 32 to the consolidated financial statements.

Foreign subsidiaries and associates

In Ukraine, Finland, Sweden and Lithuania corporate profits are subject to income tax. In the reporting period, the income tax rates were as follows: Ukraine 18% (2022: 18%), Finland 20% (2022: 20%), Sweden 20.6% (2022: 22%) and Lithuania 15% (2022: 15%). Taxable profit is calculated by adjusting profit before tax for permanent and temporary differences between the carrying amounts and tax bases of assets and liabilities as permitted by the local tax laws.

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

Segment reporting

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

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

Discontinued operations

A discontinued operation is a component of the group's business, the operations and cash flows of which can be clearly distinguished from the rest of the group and which represents the business of significant subsidiaries disposed of as at the reporting date. Classification as a discontinued operation occurs at the earlier of disposal or when the operation meets the criteria to be classified as held for sale. Discontinued operations are presented in the group's results in the consolidated statement of comprehensive income but the results of continuing operations are clearly distinguished. The comparative statement of comprehensive income is re-presented accordingly. In the notes to the consolidated financial statements, the revenues and expenses from discontinued operations for the reporting and the comparative period are distinguished from those for continuing operations and presented separately.

Revenue

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

Revenue from construction contracts

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

Revenue from sale of goods purchased and finished goods

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

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

Finance income

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

Construction contracts in progress

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

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

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

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

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

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

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

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

NOTE 5. Financial risk management

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

- Credit risk
- Liquidity risk
- Market risk

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

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

Credit risk

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

The factors, which have the strongest impact on the group's credit risk exposure, are the specific circumstances of each customer. In addition, the group's management considers more general features such as the customer's legal status (private or state-owned entity), geographical location, industry, and the economic situation in the country involved as these factors may also influence the group's exposure to credit risk. Based on the group's experience, private sector customers have the highest credit risk while the credit risk of government institutions and local governments is the lowest. The latter assessment is confirmed by the fact that there has been no need to write down receivables from public sector customers thanks to their stable solvency. During the period, the share of revenue from public sector customers increased to around 41% (2022: around 35%). The largest public sector customers were the Centre for Defence Investment and the Transport Administration whose contracts accounted for around 13% and 10% of the group's revenue, respectively (2022: 6% and 9%, respectively).

Credit risk management involves both preventive activities (analysis of counterparties' creditworthiness) and limitation of the concentration and accumulation of risks. Group companies perform transactions only with counterparties that have been rated as creditworthy by management. In the case of customers with whom the group has prior experience, credit risk assessment is mainly based on the customer's historical settlement behaviour and current monitoring. In the case of high-risk counterparties, services are rendered and goods are sold on a prepayment basis only.

The group does not demand security (e.g. payment guarantees issued by banks) for trade receivables unless the recoverability of a receivable is in doubt. The loans provided to external parties have to be secured with mortgages, surety bonds or third-party guarantees.

When a credit loss is anticipated, the receivable or loan is written down. In line with the group's accounting policies, all receivables that are more than 180 days past due and do not have an additional settlement agreement or collateral are recognised as an expense. The group also analyses the probability of future credit losses. The analysis is performed on trade receivables and amounts due from customers for contract work. Expected credit losses are estimated using a provision matrix that is based on the group's historical credit loss experience, adjusted for factors specific to the debtors, general economic conditions, an assessment of both current and forecast developments at the reporting date and, where appropriate, the time value of money. Lifetime expected credit losses are expected credit losses that result from all possible default events over the expected life of a financial instrument. Based on the analysis performed, the group did not recognise a provision at 31 December 2023 or 31 December 2022 (note 8).

Further information about the group's credit risk exposure is provided in note 33.

Liquidity risk

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

- The group's business is seasonal in nature, particularly in the infrastructure segment. In the first quarter, business volumes and profit margins are the lowest and the group needs to use the cash buffers accumulated in previous periods to cover operating and administrative expenses. In the second and third quarter, growth in operations triggers the need for additional working capital.
- In the construction sector it is often necessary to make prepayments to subcontractors and materials suppliers while customers are generally not required to make advance payments. The group has to cover the shortfall in working capital, which arises from the mismatch between cash receipts and payments, with own funds or using credit lines provided by financial institutions.
- To ensure efficient performance of its operating activities, the group needs to invest in plant and equipment and real estate.

Short-term liquidity management is based on group companies' approved annual budgets and investment plans. The main tools for short-term liquidity management are cash pooling arrangements (cash pool accounts), which combine the group's monetary resources and help mitigate seasonal fluctuations in group companies' 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 endeavours to avoid open positions (i.e. situations where the payback period of an investment exceeds the duration of financing raised).

The group's liquidity position in 2024

At the reporting date, the group's current assets and current liabilities amounted to €76,570 thousand and €81,015 thousand, respectively, and the current ratio was 0.95 (31 December 2022: €87,504 thousand and €98,945 thousand, respectively, and the current ratio was 0.88). Current liabilities included borrowings of €10,188 thousand (31 December 2022: €17,193 thousand). The largest share of current borrowings was made up of overdrafts of €6,776 thousand (2022: €11,472 thousand).

The group's management believes that in 2024 the group's liquidity position will be adequate to allow the group to conduct sustainable and profitable operating activities and to settle its liabilities to counterparties on a timely basis. In order to ensure profitability, it is important to respond quickly to market changes. Due to a steep decline in investments made in road construction, the group has made changes that started already in 2022 and were completed in the first half of 2023: the Infrastructure segment was reorganised to eliminate duplication and ensure more efficient use of resources and profitability. For more effective management of the construction process and cost-saving, the group will continue to implement various IT solutions. To ensure liquidity, the group will use overdraft facilities that help overcome the mismatch between settlements with customers and suppliers (subcontractors) and mitigate the impact of seasonality.

Further information about the group's liquidity is provided in note 33.

Market risk

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

Currency risk

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

Due to Russia's military invasion of Ukraine in February 2022 and Ukraine's previous political and economic instability, the exchange rate of the hryvnia has been volatile. In 2023, the exchange rate of the hryvnia weakened against the euro by approximately 8% in 2023. As a result, the group's Ukrainian subsidiaries, which have to translate their euro-denominated loans into the local currency, recognised a foreign exchange loss of €480 thousand (2022: a loss of €1,416 thousand). Exchange gains and losses on financial instruments have been recognised in finance income and finance costs, respectively. The translation of receivables and liabilities from operating activities did not give rise to any exchange gains or losses.

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

The exchange rate of the Swedish krona against the euro remained stable in 2023 and the translation of a loan provided to the Swedish subsidiary in euros into the local currency did not give rise to any exchange gain or loss (2022: a loss of €112 thousand). Exchange gains and losses on financial instruments are recognised in profit or loss in finance income and finance costs, respectively. The translation of receivables and liabilities from operating activities gave rise to an exchange loss of €37 thousand (2022: no exchange gain or loss).

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

Interest rate risk

The main source of interest rate risk is a potential rise in the base rates of floating interest rates. In the light of the group's relatively heavy loan burden, this would significantly increase interest expense, which would have an adverse impact on profit. We mitigate the risk by pursuing a policy of entering, where possible, into fixed-rate contracts when the market interest rates are low. As regards loan products offered by banks, observance of the policy has proved difficult and most new contracts have floating interest rates.

Further information about the group's market risk exposures is provided in note 33.

Country risk

In the reporting period, the group's foreign markets included Sweden, Finland and Ukraine. Ukraine accounted for 2%, Finland for 1% and Lithuania for less than 1% of the group's total revenue and no revenue was generated in the Swedish market (2022: Finland 2%, Latvia and Lithuania 1%, Ukraine less than 1% and no revenue from Sweden). At the year-end, assets located in Sweden and Ukraine accounted for 0.6% and 11% of the group's total assets, respectively (2022: Sweden 0.1%, Ukraine 8%). Due to the sale of relevant subsidiaries, the group had no assets in Finland (2022: 2%). In Latvia and Lithuania, the group operated on a project basis.

Revenue generated outside Estonia remained stable compared to the previous year. Despite the war, operating volumes in Ukraine have grown, but the military conflict between Russia and Ukraine has significantly increased Ukraine's country risk for the group. The conflict has a negative impact on the construction and property markets as well as the value of financial instruments related to Ukraine (note 36). Property development activities which require major investment remain suspended (the group has currently stakes in two development projects that have been put on hold). To safeguard the investments made and the loans provided, the group and the co-owners have privatised the property held by the associate V.I. Center TOV and created mortgages on it.

In view of the above factors, management is of the opinion that the group's financial instruments and investment property that are related to Ukraine are exposed to increased risk and the probability that their value may decrease is above average (notes 8 and 12).

Determination of fair value

According to management's assessment, the carrying amounts of the group's financial assets and liabilities do not differ significantly from their fair values. The group categorises financial instruments into three levels based on the inputs of their valuation techniques:

- Level 1: Financial instruments measured based on prices quoted on a stock exchange or another active regulated market (unadjusted). A market is active if quoted prices are readily and regularly available from a stock exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring transactions on an arm's length basis.
- Level 2: Financial instruments measured using valuation techniques that use observable inputs. For example, financial instruments which are measured based on quoted prices for similar instruments in an active regulated market or financial instruments which are measured based on quoted prices in regulated markets but whose market liquidity is low. In applying a fair value measurement technique, the group maximises the use of observable inputs, if those are available, and minimises the use of its own estimates. An instrument is categorised to level 2 when all significant valuation inputs are observable. If one or several of significant inputs are not based on observable market data, the instrument is categorised into level 3.
- Level 3: Financial instruments which are measured using valuation techniques that use unobservable inputs.

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

Financial instruments

Group companies' financial instruments are recognised in the statement of financial position and the group does not have any significant financial instruments that are accounted for off the statement of financial position.

For disclosure purposes, fair values are determined as follows:

- Trade and other receivables – the fair value assessment for trade and other receivables (except for receivables related to construction contracts in progress) is based on the present value of their future cash flows discounted at the market interest rate at the reporting date. Non-current fixed-interest financial assets are discounted by applying the average market interest rate at the reporting date.
- Long-term financial assets – the fair value assessment for long-term financial assets (other investments) is based on the present value of their discounted future net cash flows.
- Financial liabilities – the fair value assessment for financial liabilities is based on the discounted present value of the future principal and interest payments. The discount rate applied is the average market interest rate for similar liabilities at the reporting date as outlined in the statistics released by the central bank of Estonia.

A comparison of the fair values and carrying amounts of the group's financial instruments is presented in note 33.

Investment property

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

- Discounted cash flow method – To calculate the value of a property's discounted cash flows, the appraiser forecasts the property's future rental income (incl. rental per square metre and the occupancy rate) and associated operating expenses. Depending on the terms of the existing lease (whether and how easily the lease can be terminated by the tenant), the appraiser will base the projections on either the property's existing cash flows or the market's current average cash flows for similar properties. The present value of the future net cash flow is found by applying a discount rate which best reflects the market's expectations of a rate of return appropriate for the asset and the risks specific to the asset.
- Sales comparison method – Under this method, the fair value of a property is determined by reference to the price per square metre agreed in transactions performed with similar properties under similar conditions. This method is used to determine the value of properties that do not generate rental income but are held for resale or capital appreciation.
- Price in a contract under the law of obligations – The fair value of properties which at the reporting date have been sold under a contract under the law of obligations but whose real right contract[3] has not yet been signed is determined based on the sales price of the property in the contract under the law of obligations. The method is used to determine 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 the financial statements are authorised for issue). The method is also used when a contract under the law of obligations is signed after the reporting date but the terms of the transaction have been agreed before the end of the reporting period and they have not changed significantly by the date of the transaction.

The group measured the fair values of its investment properties using the sales comparison method and the discounted cash flow method. The valuations were performed by the group's property specialists. Based on the valuation results, the carrying amount of the group's investment properties in Estonia was reduced by €30 thousand. The impact of possible changes in estimates on the value of investment properties is disclosed in note 12.

€'000 As at 31 December	2023	2022
Total interest-bearing liabilities (note 15)	18,751	23,504
Cash and cash equivalents (note 7)	(11,892)	(7,238)
Net interest-bearing liabilities	6,859	16,266
Total equity	22,538	27,260
Invested capital (interest-bearing liabilities + equity)	41,109	50,764
Gearing ratio*	17%	32%

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

Minimum capital requirements

The laws of the parent company's domicile set minimum requirements for a company's equity. By law, the equity of a limited company defined as *aktsiaselts* (AS) has to amount to at least half of its share capital but not less than €25 thousand.

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

Dividend policy

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

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

Dividends distributed by Nordecon AS in previous years:

Year of pay-out	Total dividend paid €'000	Number of shares, '000	Dividend per share €	Dividend pay-out ratio*
2019	1,891	31,529	0.06	55.9%
2020	0	31,529	0	0
2021	3,778	31,529	0.12	65%
2022	0	31,529	0	0
2023	0	31,529	0	0

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

NOTE 6. Group companies

At 31 December 2023, the Nordecon group had 17 consolidated subsidiaries (2022: 20), of which 12 were incorporated and domiciled in Estonia (2022: 14), 3 in Ukraine (2022: 3), 1 in Lithuania (2022: 1), 1 in Sweden (2022: 1). There were no subsidiaries in Finland (2022: 1).

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

Subsidiary	Core business	Country of incorporation	Ownership interest in 2023	Ownership interest in 2022
Nordecon Betoon OÜ	Concrete works	Estonia	0	52
Tariston AS	Road construction and maintenance	Estonia	100	100
Kaurits OÜ	Leasing out heavy equipment, construction as a subcontractor	Estonia	0	100
Embach Ehitus OÜ	Building construction	Estonia	51	51
EE Ressursid OÜ	Geodetic surveying	Estonia	100	100
Kalda Kodu OÜ	Property development	Estonia	100	100
Eurocon OÜ[4]	Holding company (UKR)	Estonia	100	100
SweNCN OÜ[4]	Holding company (SE)	Estonia	100	100
Eurocon Ukraine TOV	Building construction	Ukraine	100	100
Eurocon BUD TOV	Building construction	Ukraine	100	100
Tehnopolis-2 TOV[4]	Property development	Ukraine	100	100
NOBE Rakennus OY	Concrete works	Finland	0	52
Nordecon Statyba UAB[4]	Building construction	Lithuania	80	80
SweNCN AB	Building construction (SE)	Sweden	100	100

[4] Dormant.

Kaurits OÜ (the acquiree) and Tariston AS (the acquirer) were merged. For accounting purposes, the date of the merger (the acquisition date) was 1 January 2023.

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

At 31 December 2023, the group had interests in 1 associate (2022: 2). Further information about equity-accounted investees is presented in note 11.

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

€'000 Company	Nordecon Betoon OÜ	NOBE Rakennus OY	Embach Ehitus OÜ	2023 Total
Current assets	-	-	26,253	**26,253**
Non-current assets	-	-	1,314	**1,314**
Current liabilities	-	-	20,817	**20,817**
Non-current liabilities	-	-	1,731	**1,731**
Equity	-	-	5,019	**5,019**
Revenue	90,662	1,336	42,360	**134,358**
Profit (loss)	4,630	(849)	2,420	**6,201**
Non-controlling interests' share of profit (loss)	2,222	(407)	1,186	**3,001**
Non-controlling interests' shareholding	48%	48%	49%	
Cash flows from operating activities	8,767	(178)	8,009	**16,598**
Cash flows from financing activities	(1,902)	0	(1,811)	**(3,713)**
Cash flows from investing activities	(595)	0	79	**(516)**
Net cash flow	6,270	(178)	6,277	**12,369**

€'000 Company	Nordecon Betoon OÜ	NOBE Rakennus OY	Embach Ehitus OÜ	2022 Total
Current assets	27,505	2,490	13,538	**43,533**
Non-current assets	1,746	0	915	**2,661**
Current liabilities	20,617	1,948	9,335	**31,900**
Non-current liabilities	1,577	3	1,019	**2,599**
Equity	7,056	539	4,099	**11,694**
Revenue	96,600	6,330	37,567	**140,497**
Profit (loss)	2,786	(222)	2,002	**4,566**
Non-controlling interests' share of profit (loss)	1,337	(107)	981	**2,211**
Non-controlling interests' shareholding	48%	48%	49%	
Cash flows from operating activities	1,178	335	168	**1,681**
Cash flows from financing activities	(1,154)	110	(1,062)	**(2,106)**
Cash flows from investing activities	(418)	0	0	**(418)**
Net cash flow	(394)	445	(894)	**(843)**

At 31 December 2023, non-controlling interests in the group's equity totalled €925 thousand (31 December 2022: €4,345 thousand), of which Embach Ehitus OÜ accounted for €920 thousand. The remaining non-controlling interests, none of which is individually material for the group, totalled €5 thousand (31 December 2022: €(7) thousand).

As a result of the sale of Nordecon Betoon OÜ and NOBE Rakennus OY, non-controlling interests in equity decreased by €4,914 thousand. At 31 December 2022, Embach Ehitus OÜ accounted for €469 thousand, Nordecon Betoon OÜ for €3,394 thousand and NOBE Rakennus OY for €489 thousand of the non-controlling interests.

Sale of the investment in Nordecon Betoon OÜ

An extraordinary general meeting of Nordecon AS held on 29 November 2023 resolved to sell Nordecon AS's 52% stake in Nordecon Betoon OÜ. The transaction was finalised in early December 2023. The revenues, expenses and cash flows of the divested companies were consolidated until 30 November 2023. With the sale of its investment in Nordecon Betoon OÜ, the Nordecon group has profitably exited the concrete work market, where it competed as a subcontractor, and will focus on its core services: general contracting and construction design management. With the transaction, the group also withdrew from the Finnish market, where it had been operating through Nordecon Betoon OÜ's subsidiary NOBE Rakennus OY. For further information, see note 23.

Effect of the sale on the group's financial position

€'000	Total
Sales price of shares	9,050
Net assets of subsidiaries at the time of disposal	(9,119)
Non-controlling interest at the time of disposal	4,914
Gain on sale of subsidiaries	**4,845**

Further information on the effect of the transaction on the group's reporting is provided in note 23.

NOTE 7. Cash and cash equivalents

€'000	31 December 2023	31 December 2022
Current accounts	11,892	7,238
Total cash and cash equivalents	**11,892**	**7,238**

A significant share of the group's current accounts is with the following banks: Swedbank AS, SEB Pank AS and Coop Pank AS.

The group's exposure to interest rate risk and a sensitivity analysis of the group's financial assets and liabilities are disclosed in note 33.

NOTE 8. Trade and other receivables

€'000 Current items	Note	31 December 2023	31 December 2022
Trade receivables	33	28,053	31,882
Retentions receivable	25, 33	3,042	6,501
Receivables from related parties	33, 36	262	373
Other receivables	33	217	147
Total receivables		**31,574**	**38,903**
Due from customers for contract work	25, 33	5,436	9,181
Total current trade and other receivables		**37,010**	**48,084**

€'000 Non-current items	Note	31 December 2023	31 December 2022
Loans to related parties	33, 36	8,146	7,899
Receivables from related parties	33, 36	172	235
Other non-current receivables	33	795	470
Total non-current trade and other receivables		**9,113**	**8,604**

Trade receivables are presented in the net amount. There was no impairment allowance at the end of the reporting period (31 December 2022: €(102) thousand). Changes in the impairment allowance are disclosed in note 33.

Retentions receivable comprise the amounts of progress billings withheld by customers until the completion of construction or another date agreed in the construction contract. The year-end amounts are expected to be collected within 12 months.

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

Long-term loans to related parties comprise a loan to a Ukrainian associate together with accrued interest (note 36).

The loan recognised in the statement of financial position as at 31 December 2023 was provided to the associate for the acquisition and development of a property. The property is located in Shastliv village near Kiev, next to the Kiev–Borispol motorway. The loan provided to V.I. Center TOV is secured with a mortgage of €7,000 thousand. The group has invested in the associate together with other shareholders in proportion to its ownership interest. The associate's only liabilities are to its shareholders and each shareholder's receivable is proportionate to the shareholder's interest in the associate. The associate's main asset is the above property. Therefore, the recoverable amount of the loan was measured based on the fair value of the property held by the associate, which qualifies as a level 3 measurement according to the fair value hierarchy provided in IFRS 13 *Fair Value Measurement*.

At 31 December 2023, the carrying amount of the loan was €8,146 thousand (31 December 2022: €7,899 thousand): loan principal and accrued interest totalled €11,899 thousand (31 December 2022: €11,652 thousand) and credit loss allowances amounted to €3,753 thousand, including the loss allowance recognised in 2022 of €826 thousand. The group measures the value of the planned development project using the assistance of an internationally recognised independent appraiser. Significant valuation inputs include the project's cash flows (expected rental prices), discount rates, the vacancy rates of the commercial premises to be rented out and the time factor of the realisation of the project (delays in completion). Russia's military invasion of Ukraine in February 2022 and continuing military aggression against Ukraine have made Ukraine's economic situation highly unstable. Therefore it was not possible to obtain a valuation report from an independent internationally recognised appraiser regarding the fair value of the group's Ukrainian development project as at 31 December 2023 and 31 December 2022. The write-down recognised in 2022 was made based on the valuation report issued by an independent internationally recognised appraiser in 2021. The write-down was recognised due to the time factor, i.e. the deferral of the completion of the development project. The property has not been damaged in the war and the group has control of the property.

According to management's estimates the associate will settle its loan liability to the group after the sale of the development project (the property), which is not expected to occur sooner than within the next 8 years. The group's interest in the associate is 44%, none of the shareholders has control of the associate and the property has been mortgaged for the benefit of Nordecon AS.

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

NOTE 9. Prepayments

€'000	31 December 2023	31 December 2022
Prepayments to suppliers	1,515	5,951
Prepaid taxes	190	620
Prepaid expenses	84	157
Total prepayments	**1,789**	**6,728**

Prepayments to suppliers comprise prepayments for services of €1,348 thousand (2022: €4,779 thousand) and building materials of €167 thousand (2022: €1,172 thousand).

NOTE 10. Inventories

€'000	31 December 2023	31 December 2022
Raw materials and consumables	5,749	4,228
Work in progress	10,440	10,793
Apartments and parking spaces for sale	223	223
Properties purchased for development and pre-development costs	9,467	10,210
Total inventories	**25,879**	**25,454**

In 2023, inventories of €231,213 thousand (2022: €282,865 thousand) were recognised in the cost of sales.

Raw materials and consumables comprise inventories acquired for construction and road maintenance operations. In the reporting and the comparative period, no materials and consumables were written down.

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

€'000	31 December 2023	31 December 2022
Capitalised pre-development costs	867	865
Properties purchased for development	8,600	9,345
Total	**9,467**	**10,210**
Of which borrowing costs	1,030	921

Capitalised borrowing costs accounted for 10% of the group's total borrowing costs in 2023 (2022: 8%).

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

At the reporting date, the total carrying value of properties (plots of land) purchased for development was €8,600 thousand (2022: €9,345 thousand). A property purchased for development is carried within 'Properties purchased for development and pre-development costs' until it is sold as a separate asset or its development reaches the phase where the building on it is ready for sale at which point the property or part of it is reclassified to apartments for sale. All pre-development expenditures that qualify for capitalisation are recognised in work in progress. At the year-end, properties acquired for development were carried at cost. No properties acquired for development were written down in the reporting or the comparative period. According to management's assessment, at 31 December 2023, properties purchased for development comprised properties of €4,105 thousand whose development will start within a year and properties of €5,036 thousand whose development will start later. According to the group's estimates, the normal time frame for development (from the acquisition of the plot to the sale of the completed development project) is 10 to 15 years.

Information about inventories pledged as collateral is provided in note 35.

Potential impact of changes in estimates

The group measured the net realisable values of properties purchased for development using the residual value method. Significant valuation inputs included the expected cash flows of the project (the apartments' expected sales price per square metre, which was set at €2,000 to €3,500, depending on the location). The group did not identify a need for recognising an impairment loss as at 31 December 2023 or 31 December 2022. A sensitivity analysis showed that if actual sales proceeds were 10% smaller (compared with the estimates), properties purchased for development would have to be written down by around €6,121 thousand.

NOTE 11. Investments in equity-accounted investees

General information on equity-accounted investees

Name and type of investee		Domicile	The group's interest 31 December 2023	31 December 2022	Core business
V.I. Center TOV	Associate	Ukraine	44%	44%	Real estate
Kastani Kinnisvara OÜ	Associate	Estonia	26%	26%	Real estate

The group has no liabilities related to associates that are accounted for off the statement of financial position.
At 31 December 2023, the carrying amount of the investments was zero and the investments were accounted for off the statement of financial position.

Financial information of equity-accounted investees

2023

Summary financial information for associates presented as separate companies

€'000

Company	V.I. Center TOV	Kastani Kinnisvara OÜ	Total
Current assets	256	-	**256**
Non-current assets	7,121	-	**7,121**
Current liabilities	25,035	-	**25,035**
Equity	(17,658)	-	**(17,658)**
Revenue	0	-	**0**
Expenses	1,999	-	**1,999**
Loss	(1,999)	-	**(1,999)**
Carrying amount of investment	0	-	**0**

The group does not have a binding commitment to restore the negative equity of the company in Ukraine. Therefore, a relevant provision has not been recognised. At 31 December 2023, V.I. Center TOV's current liabilities included current liabilities to the group of €11,899 thousand (31 December 2022: €11,652 thousand) (see note 8).
On 15 November 2022, the shareholders of Kastani Kinnisvara OÜ decided to wind up the company and to start the liquidation proceedings. By the reporting date, the liquidation proceedings had been completed.

2022

Summary financial information for associates presented as separate companies

€'000

Company	V.I. Center TOV	Kastani Kinnisvara OÜ	Total
Current assets	277	2	**279**
Non-current assets	7,251	0	**7,251**
Current liabilities	24,551	0	**24,551**
Equity	(17,024)	2	**(17,022)**
Revenue	0	0	**0**
Expenses	5,685	0	**5,685**
Loss	(5,685)	0	**(5,685)**
Carrying amount of investment	0	0	**0**

The group's share of profits and losses of equity-accounted investees

The group's share of the profits and losses of the associate V.I. Center TOV are accounted for off the statement of financial position until their equity is negative.

€'000	Recorded in 2023			Recorded in 2022		
	Loss	In the group's profit or loss	Off the statement of	Profit	In the group's profit or loss	Off the statement
V.I. Center TOV	(1,999)	0	(1,999)	(5,685)	0	(5,685)
Total	**(1,999)**	**0**	**(1,999)**	**(5,685)**	**0**	**(5,685)**

NOTE 12. Investment property

€'000	2023	2022
Investment property at 1 January	**8,347**	**5,599**
Reclassification from inventories	0	2,000
Sale of investment property	(2,800)	0
Write-up of investment property	31	914
Write-down of investment property	(61)	(166)
Investment property at 31 December	**5,517**	**8,347**

The period's rental income on investment property amounted to €6 thousand (2022: €6 thousand) and direct property management expenses were €3 thousand (2022: €3 thousand). Investment properties that do not generate rental income did not give rise to any significant property management expenses. Information about assets pledged as collateral for financial liabilities is provided in note 35.

In December 2018, Nordecon AS acquired an interest in the Ukrainian associate Technopolis-2 TOV. The entity owns a property in Shastliv village near Kiev, Ukraine. Russia's military invasion of Ukraine in February 2022 and continuing military aggression against Ukraine have made Ukraine's economic situation highly unstable. Due to the war, the inputs used to measure the fair value of investment properties are volatile and therefore it was not possible to obtain a valuation report from an independent internationally recognised appraiser regarding the fair value of the group's Ukrainian investment property as at 31 December 2023 and 31 December 2022. In 2022, the group wrote the property down by €166 thousand based on a valuation report issued by an independent appraiser in 2021. The write-down was recognised based on the time factor, i.e. the deferral of the completion of the development project. The fair value of the property was not remeasured during the reporting period. The property has not been damaged in the war and the group has control of the property. At 31 December 2023, the carrying amount of the property was €1,812 thousand (31 December 2022: €1,812 thousand).

Based on the valuation of the fair values of the properties located in Estonia, the group recognised fair value gains of €31 thousand and losses of €61 thousand (2022: gains of €914 thousand and losses of €166 thousand).

The group measured the fair values of its investment properties in Estonia using the sales comparison method and the discounted cash flow method (see note 2 for the description).

The properties measured using the discounted cash flow method have approved detailed spatial plans and their intended purpose is commercial land and production land. The areas of the plots situated in Estonia are around 15 thousand and 42 thousand square metres and the areas of the buildings which will be built extend to 14 thousand, 20 thousand and 27 thousand square metres, respectively.

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

- construction prices of around €600-900 per square metre, depending on the purpose of the building to be built (production and office buildings, respectively). The relatively low construction price of buildings to be built on commercial land results from their location, which sets lower functionality requirements;
- a discount rate of 13%;
- a vacancy rate of 5%;
- an average rental price of €10–11.5 per square metre for commercial premises and €6.5 per square metre for production premises and warehouses;
- a forecast period of 2025–2034
- indexed growth in rental and other income of up to 2.5% per year (based on the group's past experience).

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

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

Potential impact of changes in estimates

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

- if rental prices decreased by 5% compared with the ones applied, the investment properties would have to be written down by around €1,182 thousand;
- if construction prices increased by 5% compared with the ones applied, the investment properties would have to be written down by around €877 thousand;
- if the discount rate increased by 1 percentage point, the investment properties would have to be written down by around €499 thousand.

NOTE 13. Property, plant and equipment

€'000	Land and buildings	Plant and equipment	Other items	Assets under construction, prepayments	Right-of-use assets	Total
Cost						
At 31 December 2021	**3,185**	**17,602**	**5,477**	**139**	**16,603**	**43,006**
Additions	0	286	412	170	4,035	4,903
Disposals	(13)	(1,646)	(384)	(107)	(1,413)	(3,563)
Transfers	0	4,668	(122)	(51)	(4,545)	(50)
At 31 December 2022	**3,172**	**20,910**	**5,383**	**151**	**14,680**	**44,296**
Additions	50	362	337	205	2,084	3,038
Disposals	0	(1,587)	(482)	0	(1,512)	(3,581)
Transfers	17	1,088	(119)	(20)	(966)	0
Derecognition of subsidiaries (note 23)	0	(712)	(873)	(25)	(1,615)	(3,225)
At 31 December 2023	**3,239**	**20,061**	**4,246**	**311**	**12,671**	**40,528**
Accumulated depreciation						
At 31 December 2021	**1,289**	**15,699**	**3,640**	**0**	**4,945**	**25,573**
Depreciation for the year	236	953	126	0	2,095	3,410
Disposals	(15)	(1,370)	(222)	0	(749)	(2,356)
Transfers	(20)	3,003	(111)	0	(2,872)	0
At 31 December 2022	**1,490**	**18,285**	**3,433**	**0**	**3,419**	**26,627**
Depreciation for the year	204	761	212	0	2,128	3,305
Disposals	0	(1,408)	(428)	0	(707)	(2,543)
Transfers	0	551	0	0	(551)	0
Derecognition of subsidiaries (note 23)	0	(287)	(528)	0	(338)	(1,153)
At 31 December 2023	**1,694**	**17,902**	**2,689**	**0**	**3,951**	**26,236**
Carrying amount						
At 31 December 2021	**1,896**	**1,903**	**1,837**	**139**	**11,658**	**17,433**
At 31 December 2022	**1,682**	**2,625**	**1,950**	**151**	**11,261**	**17,669**
At 31 December 2023	**1,545**	**2,159**	**1,557**	**311**	**8,720**	**14,292**

The breakdown of right-of-use assets between classes of property, plant and equipment is presented in note 16.

Group companies have secured their liabilities by mortgaging their land and buildings. Information about assets pledged as collateral is provided in note 35.

Proceeds from the sale of property, plant and equipment amounted to €431 thousand (see the statement of cash flows). In 2022, proceeds from the sale of property, plant and equipment were €816 thousand. Gain on the sale of property, plant and equipment amounted to €286 thousand (2022: €458 thousand) (note 30).

Depreciation expense has been recognised in the cost of sales in an amount of €2,343 thousand (2022: €2,514 thousand) (note 28) and in administrative expenses in an amount of €962 thousand (2022: €896 thousand) (note 29).

In 2023, the group signed new lease contracts of €1,869 thousand (2022: €3,589 thousand) (note 16).

NOTE 14. Intangible assets

€'000	Goodwill	Software licences	Trade-marks	Development expenditures	Pre-payments	Total
Cost						
At 31 December 2021	**18,773**	**534**	**863**	**473**	**0**	**20,643**
Additions	0	123	0	0	12	135
Disposals	0	(3)	(115)	0	0	(118)
At 31 December 2022	**18,773**	**654**	**748**	**473**	**12**	**20,660**
Additions	0	1	0	0	112	113
Disposals	0	(25)	0	0	0	(25)
Transfers	0	120	0	0	(120)	0
Derecognition of subsidiaries (note 23)	(181)	(74)	0	0	0	(255)
At 31 December 2023	**18,592**	**676**	**748**	**473**	**4**	**20,493**
Accumulated amortisation and impairment losses						
At 31 December 2021	**4,597**	**132**	**863**	**0**	**0**	**5,592**
Amortisation for the year	0	51	0	0	0	51
Disposals	0	(2)	(115)	0	0	(117)
At 31 December 2022	**4,597**	**181**	**748**	**0**	**0**	**5,526**
Amortisation for the year	0	77	0	0	0	77
Derecognition of subsidiaries (note 23)	0	(74)	0	0	0	(74)
At 31 December 2023	**4,597**	**184**	**748**	**0**	**0**	**5,529**
Carrying amount						
At 31 December 2021	**14,176**	**402**	**0**	**473**	**0**	**15,051**
At 31 December 2022	**14,176**	**473**	**0**	**473**	**12**	**15,134**
At 31 December 2023	**13,995**	**492**	**0**	**473**	**4**	**14,964**

Capitalised development expenditures result from preparations made for the extraction of sand from the seabed. The preparations will continue in 2024.

Amortisation has been recognised in administrative expenses in an amount of €77 thousand (2022: €51 thousand).

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

Impairment testing for cash-generating units containing goodwill

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

Carrying amounts of goodwill by subsidiaries and CGUs

				€'000
Company	**Interest 2023**	**Interest 2022**	**31 December 2023**	**31 December 2022**
Nordecon AS				
Goodwill	-	-	9,216	11,973
Of which: Buildings			9,216	9,216
Infrastructure			-	2,757
Subsidiaries				
Nordecon Betoon OÜ	-	52%	-	181
Kaurits OÜ	-	100%	-	2,022
Tariston AS	100%	100%	4,779	-
Total			**13,995**	**14,176**

The infrastructure operations of Kaurits OÜ (see note 6) and the road construction operations of Nordecon AS were transferred to the subsidiary Tariston AS from 1 January 2023. As a result, the above operations were taken into account in measuring the value in use of the goodwill allocated to Tariston AS and projecting the underlying future cash flows.

General assumptions for determining value in use

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

- The forecast period was 2024–2027 plus the terminal year.
- The present value of future cash flows was found using the average weighted cost of capital (WACC) as the discount rate. The proportions of debt and equity capital used as weights were based on the relevant average capital structure indicators of similar companies (measured at market value), which according to the Damodaran database were 39% and 61%, respectively.
- The cost of debt was estimated based on the CGUs' actual loan interest rates, which ranged from 2.6% to 9.9%. The expected rate of return on equity was set at 15%.
- Changes in subsequent periods' revenues were projected on the basis of the CGUs' action plans for subsequent years (incl. the budgets approved by management for 2024) and an assessment of the market situation in the segment where the specific CGU operates.
- Changes in subsequent periods' gross margins were projected on the basis of the CGUs' action plans for subsequent years (incl. the budgets approved by management for 2024) and an assessment of the market situation in the segment where the specific CGU operates.
- Administrative expenses which affect operating cash flow were projected on the basis of the budgets approved by management for 2024.
- Changes in working capital investments were projected based on the expected revenue change against the comparative period. The absolute revenue change was used to estimate the portion (5%) that is expected to be needed for raising additional working capital upon revenue growth or to be released upon revenue decline.
- Changes in capital expenditures were projected on the basis of the investment budgets approved by management for 2024 and by applying to it the growth rates suitable for subsequent years, estimated by reference to projections of the specific CGU's future operations.

Nordecon AS	Assumptions applied
Forecast period	2024–2027 + terminal year
Discount rate	11.6%
Revenue change*	2024: 40%, 2025–2027: compound annual growth rate (CAGR) 12.9%, terminal year: 1.0%
Gross margin	2024 based on budget, 2025–2027 and terminal year: 5.5%
Administrative expenses	See general assumptions, 3.0% of revenue.
Working capital	See general assumptions
Capital expenditures	See general assumptions

Tariston AS	Assumptions applied
Forecast period	2024–2027 + terminal year
Discount rate	11.6%
Revenue change	2024: 0%, 2025–2027: compound annual growth rate (CAGR) 6.6%, terminal year: 1.0%
Gross margin	2024 based on budget, 2025–2027: 4.4–4.6%, terminal year: 4.6%
Administrative expenses	See general assumptions, 1.7% of revenue
Working capital	See general assumptions
Capital expenditures	See general assumptions, 2024–2027: continuing renewal of machinery fleet.

* The assumption for revenue growth was based on the order book as at 31 December 2023.

According to the results of impairment testing, there was no need to write goodwill down in 2023 or in 2022.

Potential impact of changes in estimates

The value in use of a CGU is compared to the carrying amount of the investment made plus the carrying amount of the goodwill allocated to it. Value in use is an estimate. Therefore, any changes in selected inputs may increase or reduce the value obtained. Some differences between historical results and the assumptions used in the cash flow forecast may be attributable to projects that resulted in a significant loss or changes in different market segments. Management performed a sensitivity analysis that reflected how a change in discount rates, revenue and gross profit would affect the recoverable amount of goodwill.

The total value in use of the CGUs to which goodwill has been allocated will exceed the carrying amount of the investments and the goodwill allocated to them as long as the rise in the discount rate does not exceed 0.4 percentage points for Tariston AS, assuming all other variables remain constant. The calculations made for the goodwill allocated to Nordecon AS would not be affected by a change in the discount rate.

If revenue change proved 5 percentage points smaller, assuming all other variables remain constant, the goodwill allocated to Tariston AS would have to be written down by €1,033 thousand. The goodwill allocated to Nordecon AS would not have to be written down.

If the change in gross margin proved 1 percentage point smaller, assuming all other variables remain constant, the goodwill allocated to Tariston AS would have to be written down by €4,523 thousand, and the goodwill allocated to Nordecon AS would not have to be written down.

NOTE 15. Borrowings

Current borrowings

€'000	Note	31 December 2023	31 December 2022
Overdrafts		5,372	11,472
Current portion of non-current borrowings, of which:		4,816	5,721
Bank loans		1,300	2,625
Overdrafts		1,404	0
Lease liabilities	16	2,112	3,096
Total current borrowings		**10,188**	**17,193**

Non-current borrowings

€'000	Note	31 December 2023	31 December 2022
Total non-current borrowings		13,379	8,936
Of which current portion		4,816	2,625
Non-current portion, of which:		**8,563**	**6,311**
Overdrafts		4,164	0
Lease liabilities	16	4,399	6,311

Details of loans as at 31 December 2023

€'000 Loan type	Base currency	Interest rate	Up to 1 year	1–2 years	3-… years	Total loan	Maturity date
Overdraft	€	5%	1,404	4,164	0	5,568	30 March 2025
Overdraft	€	7.95%	4,942	0	0	4,942	10 Oct 2024
Overdraft	€	7%	430	0	0	430	9 Sept 2024
Investment loan	€	6M EURIBOR + 5.0%	1,300	0	0	1,300	5 June 2024
Total loans			**8,076**	**4,164**	**0**	**12,240**	

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

Details of loans as at 31 December 2022

€'000 Loan type	Base currency	Interest rate	Up to 1 year	1–2 years	3-… years	Total loan	Maturity date
Overdraft	€	4%	6,230	0	0	6,230	30 May 2023
Overdraft	€	6.5%	4,840	0	0	4,840	20 Oct 2023
Overdraft	€	5%	402	0	0	402	8 Sept2023
Working capital loan	€	6M EURIBOR + 5.5%	1,075	0	0	1,075	10 Oct 2023
Investment loan	€	6M EURIBOR + 4.0%	1,550	0	0	1,550	5 June 2023
Total loans			**14,097**	**0**	**0**	**14,097**	

Reconciliation of financial liabilities to cash flows

€'000	Note	2023	2022
Balance of financial liabilities at beginning of year		**23,504**	**23,694**
Proceeds from loans received		1,197	4,581
Repayments of loans received		(2,291)	(4,879)
Offsetting		(763)	0
Payments of the principal portion of lease liabilities	16	(3,060)	(3,481)
Addition of lease liabilities (new leases)	16	1,869	3,589
Termination of leases		(479)	0
Derecognition of subsidiaries	23	(1,226)	0
Balance of financial liabilities at end of year		**18,751**	**23,504**

According to a loan covenant, the group has to maintain its equity to assets ratio at 20%. As at 31 December 2023, the Group did not comply with this covenant, but the bank has confirmed in writing that it does not consider the breach of this financial obligation a breach of the loan agreement.

NOTE 16. Right-of-use assets and lease liabilities

The group leases different buildings, commercial premises and cars. Most leases have been signed for a fixed period (five years on average) and, as a rule, include extension and termination options. Lease terms are negotiated on a lease by lease basis and they may differ. The leases include the option to extend the lease at the end of the lease term.

Right-of-use assets

€'000	Note	Land and buildings	Plant and equipment	Other items	Total
Cost					
At 31 December 2021		**2,835**	**13,746**	**22**	**16,603**
Additions		988	3,047	0	4,035
Disposals		(404)	(1,009)	0	(1,413)
Transfers to property, plant and equipment		0	(4,545)	0	(4,545)
At 31 December 2022		**3,419**	**11,239**	**22**	**14,680**
Additions		535	1,549	0	2,084
Disposals		(468)	(1,022)	(22)	(1,512)
Transfers to property, plant and equipment		(66)	(900)	0	(966)
Derecognition of subsidiaries	23	(884)	(731)	0	(1,615)
At 31 December 2023		**2,536**	**10,135**	**0**	**12,671**
Accumulated depreciation					
At 31 December 2021		**1,159**	**3,780**	**6**	**4,945**
Additions		484	1,604	7	2,095
Disposals		(195)	(554)	0	(749)
Transfers to property, plant and equipment		0	(2,872)	0	(2,872)
At 31 December 2022		**1,448**	**1,958**	**13**	**3,419**
Additions		534	1,590	4	2,128
Disposals		(138)	(552)	(17)	(707)
Transfers to property, plant and equipment		0	(551)	0	(551)
Derecognition of subsidiaries	23	(113)	(225)	0	(338)
At 31 December 2023		**1,731**	**2,220**	**0**	**3,951**
Carrying amount					
At 31 December 2021		**1,676**	**9,966**	**16**	**11,658**
At 31 December 2022		**1,971**	**9,281**	**9**	**11,261**
At 31 December 2023		**805**	**7,914**	**0**	**8,720**

Lease liabilities

The group as a lessee

€'000	Note	2023	2022
Lease liabilities at beginning of year		**9,407**	**9,299**
Addition		1,869	3,589
Write-off		(479)	0
Payments of the principal portion of lease liabilities		(3,060)	(3,481)
Derecognition of subsidiaries	23	(1,226)	0
Lease liabilities at end of year, of which falling due:		**6,511**	**9,407**
Up to 1 year	15	2,112	3,096
1–5 years	15	4,399	6,311
Base currency €		6,511	9,407
Interest rate for contracts denominated in €*		2.9%-7.2%	2.9%-5.9%
Weighted average interest rate		5.7%	4.1%
Interest expense of the period		430	291
Cash outflows related to leases		(3,060)	(3,772)

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

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

€'000			2023			2022
Payable	Minimum lease payments*	Interest	Present value of minimum lease payments	Minimum lease payments*	Interest	Present value of minimum lease
Up to 1 year	2,425	313	2,112	3,435	339	3,096
1–5 years	4,773	374	4,399	6,742	432	6,311
Total	**7,198**	**687**	**6,511**	**10,177**	**771**	**9,407**

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

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

Short-term leases recognised in profit or loss

€'000	Note	2023	2022
Interest expense on leases		430	291
Lease expenses on leases of low-value assets and short-term leases		4,634	6,403
Depreciation	13	2,128	2,095

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

The leases include purchase options that can be exercised in certain circumstances. The leases can be terminated early without any significant penalties, provided notice is given as agreed in the contracts.

NOTE 17. Trade payables

€'000	Note	31 December 2023	31 December 2022
Trade payables		28,683	46,121
Accrued expenses related to contract work		11,114	18,754
Payables to related parties	36	58	269
Total current trade payables	33	**39,855**	**65,144**
Trade payables	33	6,011	2,769
Total non-current trade payables		**6,011**	**2,769**

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

NOTE 18. Other payables

€'000	Note	31 December 2023	31 December 2022
Payables to employees		4,626	4,556
Taxes payable		4,569	3,607
Dividends payable		0	14
Accrued expenses		46	89
Miscellaneous payables		0	58
Total current other payables	33	**9,241**	**8,324**

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

Accrued expenses include mainly interest accrued on loan liabilities.

Taxes payable

€'000	31 December 2023	31 December 2022
Value added tax	2,964	1,416
Personal income tax	450	622
Social security tax	782	990
Other taxes	123	253
Deferred income tax liability	250	326
Total taxes payable	**4,569**	**3,607**

NOTE 19. Deferred income

€'000	Note	31 December 2023	31 December 2022
Due to customers for contract work	25	18,735	3,600
Advances received for goods and services		1,867	3,396
Total deferred income		**20,602**	**6,996**

NOTE 20. Provisions

€'000	31 December 2023	31 December 2022
Current provisions	1,129	1,288
Non-current provisions	2,405	2,049
Total provisions	**3,534**	**3,337**

Changes in provisions

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

Warranty provisions (€'000)	2023	2022
Opening balance	**1,604**	**1,335**
Provisions used and reversed	(1,012)	(1,334)
Provisions recognised	2,163	1,603
Liability derecognised on sale of subsidiaries	(875)	0
Closing balance, of which:	**1,880**	**1,604**
Current portion	483	685
Non-current portion	1,397	919

Rehabilitation provisions (€'000)	2023	2022
Opening balance	**1,299**	**1,280**
Provisions used and reversed	(56)	(202)
Provisions recognised	112	221
Effect of discounting	(307)	0
Closing balance, of which:	**1,048**	**1,299**
Current portion	141	169
Non-current portion	907	1,130

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

Other provisions (€'000)	2023	2022
Opening balance	**434**	**136**
Provisions recognised	275	600
Provisions used	(103)	(302)
Closing balance, of which:	**606**	**434**
Current portion	505	434
Non-current portion	101	0

Other provisions comprise provisions for resource charges, known legal costs and claims. At 31 December 2023 and 31 December 2022, there was no provision for onerous construction contracts.

NOTE 21. Equity

Share capital

€'000	2023	2022
At 1 January	14,379	14,379
At 31 December	**14,379**	**14,379**

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

Share premium

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

Capital reserve

The Estonian Commercial Code requires companies to set up a capital reserve. Each year at least one twentieth of profit for the year has to be transferred to the capital reserve until the reserve amounts to one tenth of share capital. The capital reserve may be used to cover losses and to increase share capital but not to make distributions to shareholders. At the reporting date, the capital reserve stood at €2,554 thousand (31 December 2022: €2,554 thousand).

Translation reserve

The translation reserve comprises foreign exchange differences on the translation of the financial statements of foreign subsidiaries whose functional currency differs from the group's presentation currency. At the reporting date, the translation reserve stood at €3,786 thousand (31 December 2022: €3,316 thousand). The change is attributable to movements in the exchange rates of the Ukrainian and Swedish subsidiaries' functional currencies against the euro.

Dividends

The group did not distribute dividends in 2023 or 2022.

NOTE 22. Earnings per share

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

	2023	2022
Loss for the year attributable to owners of the parent (€'000)	(942)	(3,650)
Weighted average number of shares outstanding during the period ('000)	31,528	31,528
Basic earnings per share (€)	(0.03)	(0.12)
Diluted earnings per share (€)	(0.03)	(0.12)

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

NOTE 23. Discontinued operation

Sale of the investment in Nordecon Betoon OÜ

An extraordinary general meeting of Nordecon AS held on 29 November 2023 resolved to sell Nordecon AS's 52% stake in Nordecon Betoon OÜ. The transaction was finalised in early December 2023. The divested company has been classified as a discontinued operation. Its revenues and expenses have been included in the group's consolidated statement of comprehensive income and cash flows have been included in the group's consolidated statement of cash flows but its impact on the group's results for the reporting and the comparative period is presented below.

The revenues, expenses and cash flows of the divested company were consolidated until 30 November 2023. With the sale of its investment in Nordecon Betoon OÜ, the Nordecon group has profitably exited the concrete work market, where it competed as a subcontractor, and will focus on its core services: general contracting and construction design management. With the transaction, the group also withdrew from the Finnish market, where it had been operating through Nordecon Betoon OÜ's subsidiary NOBE Rakennus OY.

Effect of the sale on the group's financial position

€'000	Total
Sales price of shares	9,050
Net assets of subsidiaries at the time of disposal	(9,119)
Non-controlling interest at the time of disposal	4,914
Gain on sale of subsidiaries	**4,845**

The financial effect of the above transaction in 2023 is reported in the consolidated statement of cash flows within 'Sale of subsidiaries, net cash flow'.

Effect of the discontinued operation on the group's statement of cash flows

€'000	2023	2022
Cash flows from operating activities	8,589	1,513
Cash flows from investing activities	(595)	(418)
Cash flows from financing activities	(1,902)	(1,044)
Net cash flow	**6,092**	**51**

Effect of the discontinued operation on the group's statement of comprehensive income

€'000	2023	2022
Revenue	91,997	102,575
Expenses	87,931	99,856
Operating profit	**3,987**	**2,719**
Profit for the period	**3,629**	**2,658**

NOTE 24. Segment reporting

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

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

The group's reportable operating segments are:

- Buildings
- Infrastructure

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

Preparation of segment reporting

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

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

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

2023 €'000	Buildings	Of which continuing operations	Infrastructure	Of which continuing operations	Total	Of which continuing operations
Revenue from external customers	211,082	138,134	67,233	48,263	278,315	186,397
Gross profit of the segment	9,225	4,148	2,085	646	11,310	4,794
Depreciation and amortisation	(1,142)	(779)	(1,891)	(1,891)	(3,033)	(2,670)
Segment assets	90,802	90,802	24,146	24,146	114,948	114,948
Capital expenditures	1,166	673	1,703	1,703	2,869	2,376

2022 €'000	Buildings	Of which continuing operations	Infrastructure	Of which continuing operations	Total	Of which continuing operations
Revenue from external customers	260,585	169,025	62,048	51,033	322,633	220,058
Gross profit (loss) of the segment	10,725	7,153	(1,480)	(2,404)	9,245	4,749
Depreciation and amortisation	(734)	(478)	(2,123)	(2,123)	(2,857)	(2,601)
Segment assets	111,194	85,401	20,102	20,102	131,296	105,503
Capital expenditures	2,319	781	2,370	2,370	4,689	3,151

The Centre for Defence Investment and the Transport Administration account for over 10% of the group's total revenue recognised under the stage of completion method (the Centre for Defence Investment: approximately 13%, the Buildings segment; the Transport Administration: approximately 10%, the Infrastructure segment). In 2022, there were no customers that accounted for over 10% of the group's total revenue recognised under the stage of completion method.

The revenue and gross profit of the Buildings segment include revenue and gross profit from the group's own development activities, which in 2023 amounted to €10,273 thousand and €2,587 thousand, respectively (2022: €11,459 thousand and €2,395 thousand, respectively).

The group's construction contract revenue for 2023 amounted to €259,105 thousand (2022: €304,507 thousand).

Reconciliation of segment revenues

€'000	2023	Of which continuing operations	2022	Of which continuing operations
Total revenues for reportable segments	278,315	186,397	322,633	220,058
Reportable segments' unallocated revenue	67	67	227	227
Total consolidated revenue	**278,382**	**186,464**	**322,860**	**220,285**

Reconciliation of segment profit

€'000	2023	Of which continuing operations	2022	Of which continuing operations
Total profit for reportable segments	11,310	4,793	9,245	4,749
Reportable segments' unallocated loss	(984)	(984)	(750)	(750)
Consolidated gross profit	**10,326**	**3,809**	**8,495**	**3,999**
Unallocated expenses:				
Marketing and distribution expenses	(715)	(497)	(490)	(318)
Administrative expenses	(8,915)	(6,564)	(7,287)	(5,674)
Other operating income and expenses	(140)	(179)	1,587	1,579
Consolidated operating profit (loss)	**556**	**(3,431)**	**2,305**	**(414)**
Finance income	5,510	613	258	242
Finance costs	(3,414)	(3,356)	(3,740)	(3,709)
Consolidated profit (loss) before tax	**2,652**	**(6,174)**	**(1,177)**	**(3,881)**

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

Reconciliation of segment assets

€'000	31 December 2023	31 December 2022
Total assets of reportable segments	115,001	131,296
Inter-segment eliminations	(53)	(28)
Unallocated assets	5,584	6,066
Total consolidated assets	**120,532**	**137,334**

Geographical information

Revenue (€'000)	2023	2022
Estonia	181,495	213,091
Ukraine	4,937	1,202
Finland	0	0
Latvia	0	2,574
Lithuania	32	3,418
Revenue from discontinued operation	91,918	102,575
Total revenue	**278,382**	**322,860**

Assets based on geographical location* (€'000)	2023	2022
Estonia	32,956	39,320
Ukraine	1,817	1,830
Total assets	**34,773**	**41,150**

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

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

NOTE 25. Construction contracts in progress

Significant changes in amounts due from and due to customers under construction contracts in progress

€'000	Due from customers	Due to customers
Balance at 1 January 2022	**10,579**	**4,179**
Revenue recognised during the period which at the beginning of the period was recognised in the balance of due to customers	-	(4,116)
Receivables recognised during the period which at the beginning of the period were recognised in the balance of due from customers	(9,746)	-
Remaining difference between revenue recognised and progress billings	8,348	3,537
Balance at 31 December 2022	**9,181**	**3,600**
Revenue recognised during the period which at the beginning of the period was recognised in the balance of due to customers	-	(3,493)
Receivables recognised during the period which at the beginning of the period were recognised in the balance of due from customers	(8,821)	-
Remaining difference between revenue recognised and progress billings	7,166	20,236
Derecognition of subsidiaries	(2,090)	(1,608)
Balance at 31 December 2023	**5,436**	**18,735**

Retentions receivable under construction contracts amounted to €3,042 thousand at the reporting date (31 December 2022: €6,501 thousand) (note 8).

At the reporting date, the order book stood at €216,732 thousand of which an estimated 79% will be realised in 2024 and 21% in 2025 and later.

NOTE 26. Participation in joint operations

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

Name of joint operation	The group's interest		Total value of contract	
€'000	2023	2022	2023	2022
Vanessa wind farm	-	38%	-	15,773
Porto Franco H4 construction works	50%	50%	11,175	9,326
Tootsi-Sopi wind farm	23%	-	72,799	-

NOTE 27. Revenue

2023 €'000	Buildings	Infrastructure	Total
Revenue from contracts with customers	**135,665**	**48,262**	**183,927**
Of which: general contracting services	125,392	40,462	165,854
subcontracting services	0	1,333	1,333
own development activities	10,273	0	10,273
road maintenance services	0	3,021	3,021
rental services	0	3,446	3,446
Other revenue	**2,470**	**0**	**2,470**
Of which: investment property	2,470	0	2,470
Revenue from discontinued operation	**72,947**	**18,971**	**91,918**
Total revenue	**211,082**	**67,233**	**278,315**

Revenue from contracts with customers	**135,665**	**48,262**	**183,927**
Of which: revenue from performance obligations satisfied at a point in time	10,273	0	10,273
revenue from performance obligations satisfied over time	125,392	48,262	183,927

2022 €'000	Buildings	Infrastructure	Total
Revenue from contracts with customers	**168,111**	**51,033**	**219,144**
Of which: general contracting services	156,652	37,464	194,116
subcontracting services	0	7,816	7,816
own development activities	11,459	0	11,459
road maintenance services	0	4,465	4,465
rental services	0	1,288	1,288
Other revenue	**914**	**0**	**914**
Of which: investment property	914	0	914
Revenue from discontinued operation	**91,560**	**11,015**	**102,575**
Total revenue	**260,585**	**62,048**	**322,633**

Revenue from contracts with customers	**168,111**	**51,033**	**219,144**
Of which: revenue from performance obligations satisfied at a point in time	11,459	0	11,459
revenue from performance obligations satisfied over time	156,652	51,033	207,685

NOTE 28. Cost of sales

€'000	2023	2022
Cost of materials, goods and services	163,926	197,133
Staff costs	16,016	16,308
Depreciation expense (note 13)	2,229	2,394
Other expenses	484	451
Cost of sales from discontinued operation	85,401	98,079
Total cost of sales	**268,056**	**314,365**

In 2023, the group had, on average, 558 employees (2022: 658). In addition, there were 9 people working under service contracts (i.e. contracts under the law of obligations, excluding self-employed people) and 15 members of legal persons' management or control bodies (2022: 21 and 17, respectively).

NOTE 29. Administrative expenses

€'000	2023	2022
Cost of materials, goods and services	2,003	1,839
Staff costs	3,553	2,792
Depreciation and amortisation expense (notes 13 and 14)	790	811
Other expenses	218	232
Administrative expenses from discontinued operation	2,351	1,613
Total administrative expenses	**8,915**	**7,287**

NOTE 30. Other operating income and expenses

Other operating income

€'000	Note	2023	2022
Gain on sale of property, plant and equipment	13	284	500
Other income		2	1,505
Other operating income from discontinued operation		63	44
Total other operating income		**349**	**2,049**

Other operating expenses

€'000	Note	2023	2022
Loss on sale and write-off of property, plant and equipment		7	94
Net loss on recognition and reversal of impairment losses on receivables	33	0	252
Foreign exchange loss		37	0
Other expenses		421	80
Other operating expenses from discontinued operation		24	36
Total other operating expenses		**489**	**462**

NOTE 31. Finance income and costs

Finance income

€'000	2023	2022
Gain on sale of subsidiaries	4,844	0
Interest income on loans provided	529	221
Other finance income	85	21
Finance income from discontinued operation	52	16
Total finance income	**5,510**	**258**

Interest income on loans provided for the reporting period includes interest income on loans provided to related parties of €219 thousand (2022: €218 thousand) (note 36).

Finance costs

€'000	2023	2022
Interest expense	978	898
Foreign exchange loss	480	1,528
Other finance costs	1,898	1,283
Finance costs from discontinued operation	58	31
Total finance costs	**3,414**	**3,740**

Foreign exchange loss for 2023 of €480 thousand comprises the exchange gain on the translation of the loans provided to the Ukrainian and Swedish subsidiaries in euros into the local currency. In 2021, the group earned an exchange loss of €1,528 thousand. Other finance costs for 2022 include the write-down of the loan provided to the Ukrainian associate V.I. Center TOV of €825 thousand.

NOTE 32. Income tax expense

€'000	2023	2022
Loss for the year	2,056	(1,441)
Income tax expense on dividends	(671)	(200)
Deferred tax liability	75	(64)
Profit (loss) before tax	**2,652**	**(1,177)**
Income tax using the tax rate of the parent company	75	(64)
Income tax on dividends distributed by Estonian group companies	(671)	(200)
Income tax in foreign jurisdictions	0	0
Total income tax expense	**(596)**	**(264)**

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

A deferred tax liability of €250 thousand has been recognised in the statement of financial position as at 31 December 2023 (31 December 2022: €326 thousand). At 31 December 2023, the subsidiaries' and associates' temporary differences totalled €11,066 thousand (31 December 2022: €18,993 thousand). In 2023, the group's Estonian subsidiaries paid a net dividend of €3,091 thousand, which gave rise to income tax expense of €671 thousand (2022: €1,635 thousand and €200 thousand, respectively). The share of dividends paid to non-controlling interests was €1,503 thousand (2022: €793 thousand).

NOTE 33. Financial instruments and financial risk management

Credit risk

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

€'000	Note	2023	2022
Cash and cash equivalents	7	11,892	7,238
Trade receivables	8	28,053	31,882
Of which receivables from public sector customers		*19,574*	*8,795*
receivables from private sector customers		*8,479*	*23,087*
Retentions receivable	8	3,042	6,501
Receivables from related parties	8	434	608
Loans to related parties	8	8,146	7,899
Other receivables	8	1,012	617
Due from customers for contract work	8	5,436	9,181
Of which due from public sector customers		*4,813*	*1,317*
due from private sector customers		*623*	*7,864*
Total		**58,015**	**63,926**

Receivables from related parties are unsecured, except for a loan of €8,146 thousand (31 December 2022: €7,899 thousand) provided to V.I. Center TOV, which is secured with the property belonging to the associate (note 8). According to the group's assessment, the credit risk of receivables not past due and receivables past due but not written down is low because the credit loss rate of the items is very low. The group's customers include predominantly public sector entities and large companies that have adequate creditworthiness. Among credit institutions, the group's main business partners are Swedbank AS, Luminor Bank AS, SEB Pank AS and Coop Pank AS. Swedbank AS and SEB Pank AS do not have separate credit ratings. Swedbank AS's parent Swedbank AB has Moody's long-term credit rating Aa3. SEB Pank AS's parent Skandinaviska Enskilda Banken AB has Moody's long-term credit rating Aa2. Luminor Bank AS has Moody's credit rating A2 and Coop Pank AS has Moody's credit rating Baa1.

Financial assets by geographical origin at the reporting date

€'000	2023	2022
Estonia	48,795	53,176
Ukraine	9,197	8,271
Sweden	23	516
Finland	0	1,963
Total	**58,015**	**63,926**

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

	31 December 2023		31 December 2022	
€'000	Trade receivables	Impairment allowance	Trade receivables	Impairment allowance
Not past due	21,112	0	26,979	0
0–30 days past due	3,161	0	2,065	0
31–180 days past due	2,046	0	996	0
Over 180 days past due*	1,734	0	1,945	(103)
Total	**28,053**	**0**	**31,985**	**(103)**

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

Changes in the impairment allowance for receivables

€'000	2023	2022
Impairment allowance at 1 January	(103)	(546)
Impairment losses recognised and reversed during the year	0	(319)
Items written off as uncollectible during the year	0	762
Derecognition of subsidiaries	103	0
Impairment allowance at 31 December	**0**	**(103)**

In 2023, there was no gain or loss on the recognition and reversal of impairment losses (2022: a net loss of €319 thousand) (note 30). No items classified as impaired were written off as uncollectible during the year (2022: €762 thousand).

Liquidity risk

Payments to be made to settle financial liabilities (incl. interest) under contracts in force at the reporting date

€'000						31 December 2023
Financial liability*	Carrying amount	Contractual cash flows	Up to 6 months	6-12 months	1-2 years	More than 3 years
Overdrafts (note 15)	10,940	11,950	982	6,732	4,236	0
Bank and other loans (note 15)	1,300	1,351	1,351	0	0	0
Lease liabilities (note 16)	6,511	7,198	1,272	1,153	3,491	1,282
Trade payables (note 17)	45,866	45,866	37,667	1,907	6,242	50
Other payables (note 18)	4,672	4,672	4,672	0	0	0
Total	**69,289**	**71,037**	**45,944**	**9,792**	**13,969**	**1,332**

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

€'000						31 December 2022
Financial liability*	Carrying amount	Contractual cash flows	Up to 6 months	6-12 months	1-2 years	More than 3 years
Overdrafts (note 15)	11,472	11,847	6,334	5,513	0	0
Bank and other loans (note 15)	2,625	2,765	2,305	460	0	0
Lease liabilities (note 16)	9,407	10,177	1,716	1,718	4,569	2,174
Trade payables (note 17)	67,913	67,913	64,306	838	2,769	0
Other payables (note 18)	4,717	4,717	4,717	0	0	0
Total	**96,134**	**97,419**	**79,378**	**8,529**	**7,338**	**2,174**

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

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

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

- an overdraft facility of €184 thousand with a fixed interest rate of 5.0% per year;
- an overdraft facility of €58 thousand with a fixed interest rate of 7.95% per year;
- an overdraft facility of €170 thousand with a fixed interest rate of 7.0% per year.

Financial liabilities by geographical origin at the reporting date

€'000	2023	2022
Estonia	71,219	98,401
Ukraine	2,556	281
Sweden	83	50
Finland	0	1,009
Total	**73,858**	**99,741**

Guarantee commitments accounted for off the statement of financial position

At the reporting date, banks had issued construction-related guarantees of €40,503 thousand on behalf of the group (2022: €40,664 thousand). The maturities of the guarantees extend to 2028. In addition, insurance companies have issued letters of guarantee of €154 thousand to customers (31 December 2022: €0). According to management's estimates, the risk that the guarantees will be called upon was low at the reporting date. In 2023 and in 2022, no bank guarantees issued on behalf of the group were called upon due to breach of obligations arising from construction activities.

Currency risk

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

31 December 2023

'000	€	SEK	UAH
Cash and cash equivalents	11,233	257	26,854
Current receivables	38,113	38	28,795
Non-current receivables	9,112	0	0
Total	**58,458**	**295**	**55,649**
Current liabilities	77,915	6,316	106,792
Non-current liabilities	16,979	0	0
Total	**94,894**	**6,316**	**106,792**
Net exposure	**(36,436)**	**(6,021)**	**(51,143)**

31 December 2022

'000	€	SEK	UAH
Cash and cash equivalents	7,192	343	561
Current receivables	53,638	436	44,223
Non-current receivables	8,604	0	0
Total	**69,434**	**779**	**44,784**
Current liabilities	97,148	5,390	51,146
Non-current liabilities	11,128	0	0
Total	**108,276**	**5,390**	**51,146**
Net exposure	**(38,842)**	**(4,611)**	**(6,362)**

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

	Date	Swedish krona (SEK)	Ukrainian hryvnia (UAH)
€1	31 December 2023	11.0960	42.2079
€1	31 December 2022	11.1218	38.9510

Potential impact of changes in estimates

The group estimated how the weakening or strengthening of the group's presentation currency, the euro, against the currencies of the foreign currency receivables and liabilities and cash and cash equivalents recognised in the group's statement of financial position as at the end of the reporting period would affect the group's profit or loss for the year and equity at the reporting date. The analysis assumed that all other variables remain constant.

€'000	31 December 2023	31 December 2022
Strengthening of euro by 10%	128	53
Weakening of euro by 10%	(156)	(64)

Interest rate risk

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

€'000	2023	2022
Financial instruments with a fixed interest rate		
Financial assets (loans provided to related parties and legal persons) (note 8)	8,146	7,899
Financial liabilities (note 15)	10,940	11,472
Net exposure	**(2,794)**	**(3,573)**
Financial instruments with a floating interest rate		
Financial assets (cash and cash equivalents) (note 7)	11,892	7,238
Financial liabilities (incl. lease liabilities) (notes 15 and 16)	7,811	12,032
Net exposure	**4,081**	**(4,794)**

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

	31 December 2023	31 December 2022
3 month EURIBOR	3.905%	2.184%
6 month EURIBOR	3.861%	2.726%

Potential impact of changes in estimates

An increase or a decrease of 100 basis points in the variable components of the interest rates at the reporting date would increase or reduce subsequent periods' interest expense on interest-bearing financial liabilities by €118 thousand (2022: €196 thousand). The analysis assumes that all other variables remain constant.

Fair value

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

€'000	2023 Carrying amount	2023 Fair value	2022 Carrying amount	2022 Fair value
Cash and cash equivalents (note 7)	11,892	11,892	7,238	7,238
Trade receivables (note 8)	28,053	28,053	31,882	31,882
Retentions receivable (note 8)	3,042	3,042	6,501	6,501
Due from customers (note 8)	5,436	5,436	9,181	9,181
Receivables from related parties (notes 8 and 36)	434	434	608	608
Loans to related parties (notes 8 and 36)	8,146	8,146	7,899	7,899
Other receivables (note 8)	1,012	1,012	617	617
Overdrafts (note 15)	(10,940)	(10,940)	(11,472)	(11,472)
Bank and other loans (note 15)	(1,300)	(1,300)	(2,625)	(2,625)
Lease liabilities (notes 15 and 16)	(6,511)	(6,511)	(9,407)	(9,407)
Trade payables (note 17)	(45,808)	(45,808)	(67,644)	(67,644)
Payables to related parties (notes 17 and 36)	(58)	(58)	(269)	(269)
Other payables (note 18)	(4,672)	(4,672)	(4,717)	(4,717)

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

NOTE 34. Contingent liabilities

Contingent income tax liability

€'000	31 December 2023	31 December 2022
Retained earnings of the group	919	2 691
Maximum possible income tax liability	(129)	(484)
Maximum amount that could be distributed as the net dividend	790	2,207

The maximum possible income tax liability has been calculated on the assumption that the net dividend and the resulting income tax expense may not exceed consolidated retained earnings as at the end of the reporting period. The maximum possible income tax liability that would arise in 2024 if all of the retained earnings as at the reporting date were distributed has been calculated by applying the 14% tax rate.

Guarantees and surety commitments

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

Guarantees by banks and insurance companies

At the reporting date, the guarantees provided by banks to secure group companies' commitments under construction contracts totalled €40,503 thousand (31 December 2022: €40,664 thousand). In addition, insurance companies have issued letters of guarantee of €154 thousand to customers (31 December 2022: €0).

Surety commitments

Due to the expiry of underlying obligations, the group had no surety commitments at the reporting date.

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

Under their service contracts, members of the board are eligible for benefits when their service contracts expire (for a member of the board in an amount of up to six-fold and for the chairman of the board in an amount of up to 12-fold average monthly service fee together with performance-based pay). In addition, members of the board will be paid benefits for observing the prohibition on competition after their service contracts expire (for a member of the board up to six-fold and for the chairman of the board up to 12-fold average monthly service fee together with performance-based pay). The payment of the benefits is justified because board members are subject to a prohibition on competition which restricts their activities during the period for which the benefits are paid. At 31 December 2023, the maximum contingent liability that could have arisen from the realisation of the obligation to pay benefits on the expiry of service contracts and for observing the prohibition on competition amounted to €462 thousand. This amount does not include the benefits paid to the chairman of the board in January 2024 on the expiry of the service contract (see *Remuneration report*).

Legal action

On 9 August 2018, SweNCN AB signed a construction contract with a private sector customer and Nordecon AS provided a letter of guarantee to secure performance. As the customer breached the terms of the contract by failing to pay the invoices for work completed, SweNCN AB and Nordecon AS terminated both the construction contract and the letter of guarantee in accordance with the law. The customer has challenged the termination of the contract in court and SweNCN AB has filed a counterclaim. In parallel with the court proceedings, in which the parties have not yet been heard, the parties are seeking an out-of-court settlement. It is therefore not possible to make a reliable estimate of the possible outcome, including the amount of any damages that may be claimed or paid.

NOTE 35. Assets pledged as collateral

The group has secured its financial liabilities with commercial pledges, mortgages, share pledges and other collateral.

Commercial pledges

At the reporting date, the parent and the subsidiaries had pledged their movable property under commercial pledges, which totalled €53,979 thousand (31 December 2022: €53,579 thousand).

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

Mortgages

At the reporting date, the total value of mortgages encumbering the group's immovable property (plots of land and buildings) was €18,626 thousand (31 December 2022: €18,316 thousand). The parent and the subsidiaries have mortgaged assets of the following classes:

Line item in the statement of financial position (€'000)	31 December 2023	31 December 2022
Inventories	9,221	6,336
Investment property	639	3,214
Property, plant and equipment (land and buildings)	780	780
Mortgages that cannot be linked to a specific asset class*	7,986	7,986
Total	**18,626**	**18,316**

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

Share pledges

The group's borrowings as at 31 December 2023 and 31 December 2022 were secured with a pledge of the shares in Tariston AS (100%) and a pledge of 847 thousand own (treasury) shares of Nordecon AS.

Other collateral

At 31 December 2023, the group had secured its financial liabilities with security deposits of €500 thousand and a pledge of its extraction permits with a value of €8,644 thousand. The corresponding figures as at 31 December 2022 were €425 thousand and €5,143 thousand.

NOTE 36. Transactions with related parties

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

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

The group's purchase and sales transactions with related parties

€'000		2023		2022
Counterparty	Purchases	Sales	Purchases	Sales
AS Nordic Contractors	2,209	0	885	0
Companies of AS Nordic Contractors group	0	27	247	23
Companies related to owners of AS Nordic Contractors	583	0	851	0
Companies related to members of the council	5	0	5	639
Total	**2,797**	**27**	**1,988**	**662**

€'000 Nature of transaction	Purchases	2023 Sales	Purchases	2022 Sales
Construction services	0	0	0	639
Transactions with goods	268	0	851	0
Lease and other services	503	8	626	8
Other transactions	2,026	19	511	23
Total	**2,797**	**27**	**1,988**	**662**

Receivables from and liabilities to related parties at period-end (notes 8 and 17):

	31 December 2023		31 December 2022	
€'000	Receivables	Liabilities	Receivables	Liabilities
AS Nordic Contractors	0	10	0	16
Companies related to owners of AS Nordic Contractors	433	46	329	18
Companies of AS Nordic Contractors group	0	1	278	234
Associates – receivables and liabilities	1	1	1	1
Associates – loans and interest	8,146	0	7,899	0
Total	**8,580**	**58**	**8,507**	**269**

Receivables from and liabilities to associates result from ordinary business operations. The receivables and liabilities are settled on time.

Loan principal and accrued interest receivable from related parties (note 8):

				31 December 2023		31 December 2022	
€'000	Related party	Interest rate	Currency	Loan	Of which interest	Loan	Of which interest
V.I. Center TOV	Associate	3.0%	€	8,146	929	7,899	711
Total				**8,146**	**929**	**7,899**	**711**
Of which non-current portion				8,146	929	7,899	711

During the period, the group recognised interest income on the loan to the associate of €219 thousand (2022: €218 thousand) (note 31). The loan is secured with a mortgage of €7,000 thousand (note 8).

Remuneration of the council and the board

The service fees of the members of the council of Nordecon AS for 2023 amounted to €179 thousand and associated social security charges totalled €59 thousand (2022: €150 thousand and €50 thousand, respectively).

The service fees and social security charges of the board of Nordecon AS for 2023 totalled €775 thousand and €255 thousand, respectively (2022: €417 thousand and €138 thousand, respectively). The fees include benefits of €222 thousand paid in connection with the expiry of a service contract (2022: €0) and associated social security charges of €73 thousand.

NOTE 37. Parent company's primary financial statements

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

Statement of financial position

€'000 As at 31 December	2023	2022
ASSETS		
Current assets		
Cash and cash equivalents	3,122	1,518
Trade and other receivables	25,811	25,601
Prepayments	1,319	4,648
Inventories	6,086	5,887
Total current assets	**36,338**	**37,654**
Non-current assets		
Investments in subsidiaries	7,474	7,485
Investment property	3,663	6,463
Trade and other receivables	26,350	24,809
Property, plant and equipment	3,085	3,951
Intangible assets	9,703	12,455
Total non-current assets	**50,275**	**55,163**
TOTAL ASSETS	**86,613**	**92,817**
LIABILITIES		
Current liabilities		
Borrowings	6,949	12,991
Trade payables	24,330	38,307
Taxes payable	2,281	1,527
Other payables	6,857	11,369
Deferred income	10,795	2,028
Provisions	135	295
Total current liabilities	**51,347**	**66,517**
Non-current liabilities		
Borrowings	5,377	1,740
Other payables	5,966	2,130
Provisions	234	291
Total non-current liabilities	**11,577**	**4,161**
TOTAL LIABILITIES	**62,924**	**70,678**
EQUITY		
Share capital	14,378	14,378
Own (treasury) shares	(660)	(660)
Share premium*	1,204	1,204
Statutory capital reserve	2,540	2,540
Retained earnings	6,227	4,677
TOTAL EQUITY	**23,689**	**22,139**
TOTAL LIABILITIES AND EQUITY	**86,613**	**92,817**

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

Statement of comprehensive income

€'000	2023	2022
Revenue	99,928	158,006
Cost of sales	(100,860)	(157,579)
Gross profit (loss)	**(932)**	**427**
Marketing and distribution expenses	(360)	(249)
Administrative expenses	(4,397)	(3,610)
Other operating income	192	250
Other operating expenses	(559)	(307)
Operating loss	**(6,056)**	**(3,489)**
Finance income	10,500	1,486
Finance costs	(2,894)	(1,994)
Net finance income (costs)	**7,606**	**(508)**
Profit (loss) profit before income tax	**1,550**	**(3,997)**
Income tax expense	**0**	**0**
Profit (loss) for the year	**1,550**	**(3,997)**
Total comprehensive income (expense) for the year	**1,550**	**(3,997)**

Statement of cash flows

€'000	2023	2022
Cash flows from operating activities		
Cash receipts from customers[5]	130,491	183,370
Cash paid to suppliers[6]	(125,657)	(169,53)
Cash paid to and for employees	(7,765)	(9,690)
VAT paid	(3,503)	(3,344)
Net cash from (used in) operating activities	**(6,434)**	**800**
Cash flows from investing activities		
Paid on acquisition of non-current assets	0	(122)
Proceeds from sale of non-current assets	115	325
Capital contributions to subsidiaries	(820)	(140)
Sale of subsidiaries	9,050	0
Loans provided	(377)	(1,231)
Repayments of loans provided	546	0
Interest received	274	6
Dividends received	1,609	1,148
Other investments	0	32
Net cash from investing activities	**10,397**	**18**
Cash flows from financing activities		
Proceeds from loans received	0	880
Repayments of loans received	(872)	(1,222)
Payments of lease principal	(813)	(728)
Interest paid	(674)	(666)
Dividends paid	0	0
Net cash used in financing activities	**(2,359)**	**(1,736)**
Net cash flow	**1,604**	**(918)**
Cash and cash equivalents at beginning of year	1,518	2,436
Decrease in cash and cash equivalents	1,604	(918)
Cash and cash equivalents at end of year	**3,122**	**1,518**

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

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

Statement of changes in equity

€'000	Share capital	Own shares	Share premium	Statutory capital reserve	Retained earnings	Total
Balance at 31 December 2021	**14,378**	**(660)**	**1,204**	**2,540**	**8,674**	**26,136**
Loss for the year	0	0	0	0	(3,997)	(3,997)
Balance at 31 December 2022	**14,378**	**(660)**	**1,204**	**2,540**	**4,677**	**22,139**
Carrying amount of interests under control and significant influence	-		-	-	-	(7,485)
Value of interests under control and significant influence under the equity method	-		-	-	-	10,376
Adjusted unconsolidated equity at 31 December 2022	-		-	-	-	***25,030***
Balance at 31 December 2022	**14,378**	**(660)**	**1,204**	**2,540**	**4,677**	**22,139**
Profit for the year	0	0	0	0	1,550	1,550
Balance at 31 December 2023	**14,378**	**(660)**	**1,204**	**2,540**	**6,227**	**23,689**
Carrying amount of interests under control and significant influence	-		-	-	-	(7,474)
Value of interests under control and significant influence under the equity method	-		-	-	-	9,041
Adjusted unconsolidated equity at 31 December 2023	-		-	-	-	***25,256***

Statements and signatures of the board

Statement by the board

The board of Nordecon AS acknowledges its responsibility for the preparation of the group's consolidated financial statements as at and for the year ended 31 December 2023 and confirms that:

- the policies applied on the preparation of the consolidated financial statements comply with International Financial Reporting Standards as adopted by the European Union (IFRS EU);
- the consolidated financial statements, which have been prepared in accordance with financial reporting standards effective for the period, give a true and fair view of the assets, liabilities, financial position, financial performance, and cash flows of the group consisting of the parent and other consolidated entities;
- all known events that occurred until the date the annual report was authorised for issue (18 April 2024) have been properly reported and disclosed in the consolidated financial statements;
- Nordecon AS and its subsidiaries are going concerns.

Maret Tambek	Acting Chairman of the Board	signed digitally	18 April 2024
Priit Luman	Member of the Board	*signed digitally*	18 April 2024
Tarmo Pohlak	Member of the Board	*signed digitally*	18 April 2024

Independent auditors' report

To the Shareholders of Nordecon AS

Report on the Audit of the Consolidated Financial Statements

Qualified Opinion

We have audited the consolidated financial statements of Nordecon AS and its subsidiaries (the group), which comprise the consolidated statement of financial position as at 31 December 2023, the consolidated statements of comprehensive income, changes in cash flows and equity for the year then ended, and notes, comprising material accounting policy information and other explanatory information.

In our opinion, except for the possible effects of the matter described in the *Basis for Qualified Opinion* section of our report, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the group as at 31 December 2023, 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.

Basis for Qualified Opinion

The group's consolidated statement of financial position as at 31 December 2023 includes a loan provided to the group's Ukrainian associate V.I. Center TOV with the carrying amount of €8,146 thousand (as at 31 December 2022 €7,836 thousand). The loan was provided for the acquisition and development of properties (plots of land) near Kiev. The group and the co-owners of V.I. Center TOV have created mortgages on the properties owned by the investee in order to safeguard their investments and secure their loans. The ability of the Ukrainian associate to repay the loan depends on the realisation of the development projects planned on the properties and, therefore, the recoverable amount of the loan also depends on the fair value of the properties. Russia's military attack on Ukraine, which began on 24 February 2022, has made Ukraine's political and economic situation significantly more complicated and, consequently, there are circumstances indicating impairment of the loan. Due to the uncertainty of the situation, the group's management was unable to measure the fair value of the properties that secure the loan. Accordingly, we were unable to perform audit procedures which would allow us to obtain sufficient appropriate audit evidence about the fair value of the properties and thus the value of the loan provided. As a result, we are unable to assess whether the recoverable amount of the loan as at 31 December 2023 is at least equal to its carrying amount, and whether and to what extent the group's assets and equity as at 31 December 2023 and financial result for the year then ended may be overstated due to the impairment the loan. Our opinion on the consolidated financial statements of Nordecon AS and its subsidiaries as at 31 December 2022 was qualified due to the same matter.

We conducted our audit in accordance with International Standards on Auditing (Estonia). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the group in accordance with the International Code of Ethics for Professional Accountants (Estonia) (including International Independence Standards), and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the Basis for Qualified Opinion section, we have determined that the matters described below are the key audit matters which must be disclosed in our report.

Valuation of the recoverable amount of goodwill	
Refer to notes 2 and 14 of the consolidated financial statements.	
The key audit matter	**How the matter was addressed in our audit**
The group's consolidated statement of financial position as at 31 December 2023 includes goodwill in the amount of €13,995 thousand, discussed in detail in note 14. Relevant financial reporting standards require that goodwill is tested, at least annually, for impairment. The assessment of the recoverability of goodwill requires significant judgment in determining the future performance of the cash-generating units(CGUs) to which goodwill has been allocated. The recoverable amount of goodwill is determined by calculating the value in use of the relevant CGUs using the discounted cash flow method whose key inputs such as the discount rate and the expected future revenue and gross margin depend on management's significant judgment and estimates. The determination of whether the internal and external inputs used by the group to calculate the recoverable amount of goodwill were based on reasonable and appropriate estimates required our particular attention in the audit. Even small changes in the inputs may have a significant impact on the estimate of the recoverable amount of goodwill and, thus, also on the group's financial results. Due to the above circumstances, we assessed the valuation of the recoverable amount of goodwill to be a key audit matter.	In this area, we conducted, among others, the following audit procedures: • We assessed whether management had appropriately allocated assets to CGUs based on our understanding of the group's operations. • Assisted by our own valuation specialists, we assessed the model used for calculating the recoverable amount of goodwill against the requirements of the relevant financial reporting standards, and made alternative calculations for the discount rates (WACC) applied in the calculations based on available market data, and compared it to the rates used in the valuation model. • Where the group had relied on market-based inputs, such as for the interest rates of loan and rental agreements and the discount rates applied, we compared the inputs with the data available from external sources (such as bank confirmations and publicly available market research). • We compared the data used in the model with the budgets and strategy approved by the group's council and assessed the historical accuracy of the group's budgeting process by comparing recent years' actual revenue and gross margin to the budgeted amounts. • We evaluated the assumptions and estimates applied in the model (such as the terminal period, changes in working capital and capital expenditures) used for calculating the recoverable amount of goodwill, considering our understanding of the group's operations and the economic environment. • We assessed the adequacy of the related disclosures in the consolidated financial statements, including those in respect of the sensitivity of the valuation results to changes in the key assumptions.

Other Information

Management is responsible for the other information. The other information comprises Nordecon group at a glance, key figures for 2023, letter from chairman of the council, group chief executive's letter, directors' report and the remuneration report but does not include the consolidated financial statements and our auditors' report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. In addition, our responsibility is to state whether the information presented in the directors' report has been prepared in accordance with the applicable legal and regulatory requirements. With respect to the remuneration report, our responsibility also includes considering whether the remuneration report has been prepared in accordance with the requirements of section 135[3] of the Securities Market Act.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. As described in the Basis for Qualified Opinion section, we were unable to obtain sufficient appropriate audit evidence to assess whether the loan given to Ukrainian associate may be impaired. Therefore, we are unable to conclude whether or not the other information is materially misstated with respect to this matter. Except for this matter, the information presented in the directors' report is materially consistent with the consolidated financial statements and in accordance with the applicable legal and regulatory requirements. In our opinion, the remuneration report has been prepared in accordance with the requirements of section 135[3] of the Securities Market Act.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the group's financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (Estonia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with International Standards on Auditing (Estonia), we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, then we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

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

We have undertaken a reasonable assurance engagement on the iXBRL tagging of the consolidated financial statements included in the digital files 48510000D8HSLK854I81-2023-12-31-en.zip prepared by Nordecon AS.

Responsibilities of Management for the Digital Files Prepared in Compliance with the ESEF RTS

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

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

Auditors' Responsibilities

Our responsibility is to express an opinion on whether the electronic tagging of the consolidated financial statements complies in all material respects with the ESEF RTS based on the evidence we have obtained.
We apply the provisions of the International Standard on Quality Control (Estonia) 1 and accordingly maintain a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

We are independent of Nordecon AS in accordance with the International Code of Ethics for Professional Accountants (Estonia) (including International Independence Standards), and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We conducted our reasonable assurance engagement in accordance with International Standard on Assurance Engagements 3000 (Revised), *Assurance Engagements Other than Audits or Reviews of Historical Financial Information* (ISAE 3000) issued by the International Auditing and Assurance Standards Board.

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

– obtaining an understanding of the tagging and the ESEF RTS, including of internal control over the tagging process relevant to the engagement;
– reconciling the tagged data with the audited consolidated financial statements of the group dated 31 December 2023;
– evaluating the completeness of the tagging of the consolidated financial statements;
– evaluating the appropriateness of the group's use of iXBRL elements selected from the ESEF taxonomy and the creation of extension elements where no suitable element in the ESEF taxonomy has been identified;
– evaluating the use of anchoring in relation to the extension elements.

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

In our opinion, the consolidated financial statements included in the annual report of Nordecon AS identified as 48510000D8HSLK854I81-2023-12-31-en.zip for the year ended 31 December 2023 are tagged, in all material respects, in compliance with the ESEF RTS.

Other Requirements of the Auditors' Report in Accordance with Regulation (EU) No 537/2014 of the European Parliament and of the Council

We were appointed by those charged with governance on 29 May 2023 to audit the consolidated financial statements of Nordecon AS for the year ended 31 December 2023. Our total uninterrupted period of engagement is 18 years, covering the periods ending 31 December 2006 to 31 December 2023.

We confirm that:

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

Tallinn, 18 April 2024

/signed digitally/	*/signed digitally/*
Liina Randmann	***Ele Pajusaar***
Certified Public Accountant, *Licence No 661*	*Certified Public Accountant,* *Licence No 652*

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Profit allocation proposal

Distributable profit of Nordecon AS

	€'000
Retained earnings of prior periods	2,691
Loss for 2023	(942)
Effect of sale of subsidiaries on retained earnings	(830)
Total distributable profit (retained earnings) at 31 December 2023	**919**

The board proposes that no distributions or allocations be made.

Maret Tambek	Acting Chairman of the Board	*signed digitally*	18 April 2024
Priit Luman	Member of the Board	*signed digitally*	18 April 2024
Tarmo Pohlak	Member of the Board	*signed digitally*	18 April 2024

GRI content index

The group has prepared its annual report in accordance with the requirements of internationally recognised and widely used GRI (Global Reporting Initiative) sustainability reporting standards. The group has applied the new requirements of GRI Standards 2021, which became effective from 2022. The topics required by GRI and the rest of the directors' report have been integrated into a single report.

The report discloses information about environmental, social, responsible management and market behaviour topics which are the most material in the light of the group's activities, impacts and stakeholder expectations. The GRI content index table presented below summarises the activities and summary data of the parent company Nordecon AS and its subsidiaries Nordecon Betoon OÜ, Embach Ehitus OÜ, Tariston AS, Kaurits OÜ, NOBE Rakennus OY, SweNCN AB and Eurocon Ukraine TOV unless otherwise stated. Although group companies have arranged the management of the topics differently, the annual report strives to outline common features, similar policies and examples of best practice.

Nordecon AS is a company listed on the Nasdaq Tallinn Stock exchange and the Nordecon group operates in Estonia, Ukraine and Sweden through locally registered entities and in other markets on a project basis. In the reporting period, the group also operated in Finland through a locally registered entity.

The financial reporting and sustainability reporting period is the same (1 January 2023 – 31 December 2023) and the report is disclosed once a year.

The contact person for questions regarding the report is Andri Hõbemägi, andri.hobemagi@nordiccontractors.com.

The report is disclosed on 19 April 2024.

Statement of use	Nordecon AS has reported in accordance with the GRI Standards for the period 1 January 2023 – 31 December 2023.
GRI 1 used	GRI 1: Foundation 2021
Applicable GRI Sector Standard(s)	None apply

GRI Standard	Disclosure	Location (page number)	Omission		
			Requirement(s) omitted	Reason	Explanation
General disclosures					
GRI 2: General Disclosures 2021	2-1 Organizational details	4; 65; 127			
	2-2 Entities included in the organization's sustainability reporting	127			
	2-3 Reporting period, frequency and contact point	127			
	2-4 Restatements of information	(No restatements)			
	2-5 External assurance	29			
	2-6 Activities, value chain and other business relationships	15-20			
	Additional information: In connection with the sale of Nordecon Betoon OÜ, the company exited the Finnish market.				
	2-7 Employees	32-33	Data about non-guaranteed hours employees	Not applicable	None or insignificant number
	Additional information: no significant fluctuations in employee numbers during the reporting period.				
	2-8 Workers who are not employees	33	Type of work performed	Not applicable	Insignificant number, not tracked
	Additional information: no significant fluctuations in numbers during the reporting period and period average data is shown.				

	2-9 Governance structure and composition	43-45; 46-51; 57-58			
	2-10 Nomination and selection of the highest governance body	50-51			
	Additional information: highest governance selection does not include considering competencies relevant to the impacts of the organisation.				
	2-11 Chair of the highest governance body	43-44			
	Additional information: chair of the highest governance body is not a senior executive in the organisation				
	2-12 Role of the highest governance body in overseeing the management of impacts	28-29			
	2-13 Delegation of responsibility for managing impacts	28-29			
	2-14 Role of the highest governance body in sustainability reporting	28-29			
	2-15 Conflicts of interest	49			
	2-16 Communication of critical concerns	28-29; 51	b	Information unavailable/incomplete	Not tracked separately
	2-17 Collective knowledge of the highest governance body	28-29			
	2-18 Evaluation of the performance of the highest governance body	29			
	2-19 Remuneration policies	58-59			
	2-20 Process to determine remuneration	50; 58-59			
	2-21 Annual total compensation ratio		a; b; c	Information unavailable/incomplete	Not tracked separately
	2-22 Statement on sustainable development strategy	9			
	2-23 Policy commitments	28-29			
	2-24 Embedding policy commitments	28-29			
	2-25 Processes to remediate negative impacts	29; 46			
	Additional information: Grievance mechanisms effectiveness has not been evaluated including improvements regarding stakeholder feedback				
	2-26 Mechanisms for seeking advice and raising concerns	29			
	2-27 Compliance with laws and regulations	28-29; 36-37; 41; 46			
	Additional information: no significant fines (over €10 thousand) have been paid during reported and previous period				
	2-28 Membership associations	39-40			

	2-29 Approach to stakeholder engagement	27			
	2-30 Collective bargaining agreements	34			
Material topics					
GRI 3: Material Topics 2021	3-1 Process to determine material topics	27			
	3-2 List of material topics	27			
Quality and customer experience					
GRI 3: Material Topics 2021	3-3 Management of material topics	28-29			
non-GRI	Customer satisfaction rate	30			
Leadership ability					
GRI 3: Material Topics 2021	3-3 Management of material topics	35-36			
non-GRI	Management trainings	35			
Innovation					
GRI 3: Material Topics 2021	3-3 Management of material topics	31-32			
Environmental impact of buildings constructed					
GRI 3: Material Topics 2021	3-3 Management of material topics	40			
non-GRI	Constructed buildings that have high energy labels and/or higher environmental protection standards	41			
Local communities					
GRI 3: Material Topics 2021	3-3 Management of material topics	37-38			
non-GRI	Complaints from residents of the vicinity of construction sites	38			
Economic performance					
GRI 3: Material Topics 2021	3-3 Management of material topics	15-24			

GRI 201: Economic performance 2016	201-1 Direct economic value generated and distributed	105			
Anti-corruption					
GRI 3: Material Topics 2021	3-3 Management of material topics	46			
GRI 205: Anti-corruption 2016	205-3 Confirmed incidents of corruption and actions taken	46			
Energy					
GRI 3: Material Topics 2021	3-3 Management of material topics	40-41			Only asphalt concrete plant energy consumption is tracked (most material)
GRI 302: Energy 2016	302-1 Energy consumption within the organization	41	d; e	Information unavailable/ incomplete	
Biodiversity					
GRI 3: Material Topics 2021	3-3 Management of material topics	40-42			Same locations which are mentioned more thoroughly in the report of previous year.
GRI 304: Biodiversity 2016	304-1 Operational sites owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas	41-42	a	Information unavailable/ incomplete	
Emissions					
GRI 3: Material Topics 2021	3-3 Management of material topics	40-42			Only asphalt concrete plant direct emissions are tracked (most material)
GRI 305: Emissions 2016	305-1 Direct (Scope 1) GHG emissions	41	c; e; f; g	Information unavailable/ incomplete	
	305-4 GHG emissions intensity	41			
Waste					
GRI 3: Material Topics 2021	3-3 Management of material topics	41-42			
Supplier environmental assessment					
GRI 3: Material Topics 2021	3-3 Management of material topics	30-31			All subcontractors are regularly assessed

GRI 308: Supplier Environmental Assessment 2016	308-2 Negative environmental impacts in the supply chain and actions taken	31	a	Information unavailable/ incomplete	
Employment					
GRI 3: Material Topics 2021	3-3 Management of material topics	32-35			
GRI 401: Employment 2016	401-1 New employee hires and employee turnover	34	distribution by region	Not applicable	insignificant in other countries beside Estonia (total shown)
non-GRI	Employee satisfaction and feedback	34-35			
	Number of interns	33			
Occupational health and safety					
GRI 3: Material Topics 2021	3-3 Management of material topics	28-29; 30-31; 36-37			
GRI 403: Occupational Health and Safety 2018	403-1 Occupational health and safety management system				
	403-2 Hazard identification, risk assessment, and incident investigation				
	403-3 Occupational health services				
	403-4 Worker participation, consultation, and communication on occupational health and safety				
	403-5 Worker training on occupational health and safety				
	403-6 Promotion of worker health				
	403-7 Prevention and mitigation of occupational health and safety impacts directly linked by business relationships				

	403-9 Work-related injuries	37	b(v); c; d	Information unavailable/ incomplete	Hours worked by subcontractors is not tracked.
Training and education					
GRI 3: Material Topics 2021	3-3 Management of material topics	35-36			
GRI 404: Training and Education 2016	404-1 Average hours of training per year per employee	36			
Diversity and equal opportunity					
GRI 3: Material Topics 2021	3-3 Management of material topics	32; 56			
GRI 405: Diversity and Equal Opportunity 2016	405-1 Diversity of governance bodies and employees	33	a (ii)	Not applicable	Insignificant
Non-discrimination					
GRI 3: Material Topics 2021	3-3 Management of material topics	32; 56			
GRI 406: Non-discrimination 2016	406-1 Incidents of discrimination and corrective actions taken	30-31			
Supplier social assessment					
GRI 3: Material Topics 2021	3-3 Management of material topics	30-31			All subcontractors are regularly assessed
GRI 414: Supplier Social Assessment 2016	414-2 Negative social impacts in the supply chain and actions taken	31	a	Information unavailable/ incomplete	
Public policy					
GRI 3: Material Topics 2021	3-3 Management of material topics	46			
GRI 415: Public Policy 2016	415-1 Political contributions	46			
Customer health and safety					
GRI 3: Material Topics 2021	3-3 Management of material topics	29-30			
GRI 416: Customer Health and Safety 2016	416-2 Incidents of non-compliance concerning the health and safety impacts of products and services	30			