



## Annual report 2009

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<b>Corporate website</b>	<a href="http://www.nordecon.com">www.nordecon.com</a>
<b>Core activities</b>	Construction of buildings Civil engineering Other construction work involving special trades Architectural and engineering activities
<b>Financial year</b>	1 January 2009 – 31 December 2009
<b>Council</b>	Toomas Luman, Alar Kroodo, Ain Tromp, Andri Hõbemägi, Tiina Mõis, Meelis Milder
<b>Board</b>	Jaano Vink, Priit Tiru
<b>Auditor</b>	KPMG Baltics AS

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## Management's discussion and analysis

### OUR MISSION

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

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

### VISION

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

### SHARED VALUES

#### **Reliability**

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

#### **Quality**

We are professional builders – we apply appropriate and effective construction techniques and technologies and observe generally accepted quality standards. We provide our customers with integrated cost efficient solutions. We are environmentally aware and operate sustainably. We value our employees by providing them with a modern work environment that encourages creativity and a motivation system that fosters initiative.

#### **Innovation**

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

## Chief Executive's statement

It will probably be noted for years that in 2009 the construction sector, along with the rest of the plunging economy, experienced an abrupt downturn that completely transformed the market players' outlook on the construction business. Drastic shrinkage in construction volumes required swift and radical changes in companies' cost structure and "cost-cutting" became the keyword of the year.

Nordecon started 2009 with a new development strategy devised in the previous period with a view to adapting the Group's structure and operating principles to the changing environment. On the one hand, this was a timely step that allowed us to streamline and cut our costs by the targeted 30%. On the other hand, in the middle of the year this part of the strategy that concerned our foreign operations had to be revised because changes in the markets involved proved greater than anticipated.

In March, after careful consideration and meticulous preparation, we took an important step towards creating a uniform corporate identity and changed the names of our main entities by which many strong brand names that had served us well and were recognised in the home market such as Eesti Ehitus, Aspi, Linnaehitus and Mapri Projekt became history. The move, which at first glance might seem somewhat radical or even questionable, was irrefutably necessary and even inevitable from the long-term perspective. Today we can say that the new Nordecon brand has been well accepted and has become an integral part of a company offering dependable quality and efficient services.

Although in 2009 we were unable to go against the stream and achieve business growth, we are pleased to report that our order book remained stable from quarter to quarter and several major projects such as the Mäo bypass, the Koidula border station, an extension to the Lõunakeskus shopping mall in Tartu, berths for the Virtsu and Paldiski ports and the Nordea building in Tallinn were successfully continued or completed.

In the second half of the year, the long-predicted rise in the importance of infrastructure projects became increasingly apparent across the construction market and found reflection also in our performance. The fact that for years we have maintained a strategic balance between buildings and infrastructure construction is now providing us with a valuable competitive edge in a challenging market where the determining factors are skills, expertise and experience.

I would like to thank all of our employees who made it possible to implement in 2009 numerous changes that were critical for ensuring the company's sustainable development and whose hard work and dedication help us face the challenges that persist in the present construction market.

**Jaano Vink**

Chairman of the Board

## Change of the Group's business name

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

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

### Changes in the names of Group companies in 2009

AS Eesti Ehitus → Nordecon International AS	OÜ Mapri Projekt → Nordecon Batoon OÜ
AS Linnaehitus → Nordecon Ehitus AS	SIA Abagars → Nordecon Infra SIA
AS Aspi → Nordecon Infra AS	UAB Eurocon LT → Nordecon Statyba UAB

In this report, the Group's former business name is used or referred to wherever necessary for legal reasons or clarity.

## The Group's strategy and objectives for 2009-2013

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

### The Group's strategic basis and strengths

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

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

### The Group's objectives for 2009-2013

The Group's development strategy for 2009-2013 that was approved by the council at the beginning of 2009 is governed by two primary goals – to improve operating efficiency at all Group entities and to sustain internationalisation. To achieve the goals, management allocated the desired objectives and the activities required for achieving them to specific time periods.

**According to the strategy, in 2009-2010 Nordecon International has to reinforce its positions in the home market and prepare for dynamic growth in foreign markets in 2011-2013 by:**

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

**By 2013 the potential created in 2009-2010 should be realised and Nordecon International should be the fastest-growing construction group listed on the Nordic and Baltic stock exchanges. The objectives are:**

- To be the market leader in Estonia in both buildings and infrastructure construction in terms of revenue
- To earn approximately 50% of the revenue for 2013 in foreign markets
- To have separate buildings and infrastructure construction subsidiaries in both Latvia and Lithuania
- To penetrate the Ukrainian infrastructure market, if possible
- To be ready to penetrate the Belarusian construction market if there are adequate arguments for this

**Revision of the Group's strategy for 2009-2010 and the ultimate strategic goal**

The Group's business strategy for 2009-2010 foresaw, among other things, acquiring new companies in selected markets and developing existing ones. However, in the middle of 2009 the Group suspended its buildings construction operations in Lithuania because, owing to changes in the market situation, there were not sufficiently sizeable contracts on offer that, if won, would have allowed sustaining a reasonable volume of operations. In addition, in February 2010 the Group sold its Latvian subsidiary and exited the Latvian infrastructure construction market due to unsatisfactory results and continuing instability of the economic environment. Because of the above, in the next few years the Group does not intend to continue active operations in Latvia and Lithuania except for participation in project-based tenders that may be expected to yield a reasonable profit margin.

Owing to an adverse economic environment, the Group's management has also decided to suspend dynamic expansion in Ukraine. Instead, the main efforts will be aimed at cost-cutting and other measures relevant to responding adequately to declining volumes and margins. In Ukraine, the construction market slump has made winning new contracts extremely complicated and the private sector customer base has become almost nonexistent. Therefore, the main task for Group entities is to align their structure so that they could effectively manage their costs while maintaining readiness for re-launching construction operations as soon as the market situation improves. The Group is currently not involved in any active real estate projects outside Estonia.

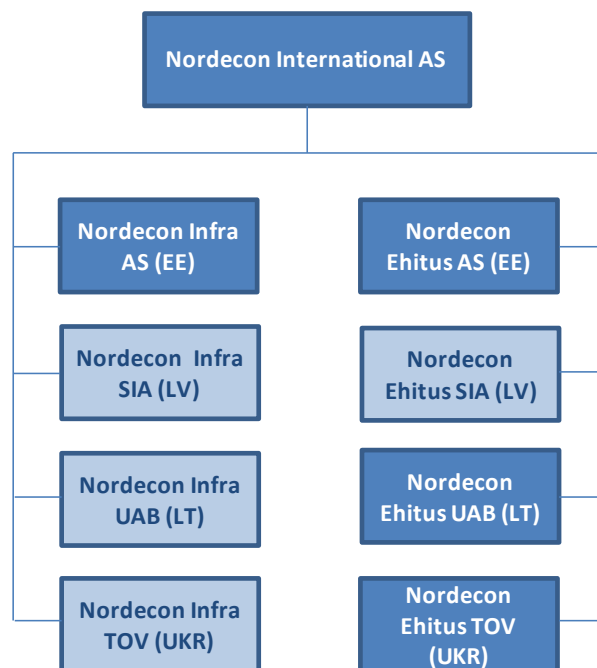
The Group's management is of the opinion that the situation in the Group's present foreign markets may improve more slowly than anticipated and, consequently, attainment of the strategic goal of increasing the revenue earned outside Estonia to roughly 50% of the total by 2013 has become doubtful and requires revision. To date, the Group's council has not yet approved any changes to the Group's development strategy for 2009-2013 but management is going to make relevant proposals in the first quarter of 2010.

Nevertheless, in 2010 the Group will focus on consolidating the positions achieved over the years in the home market in Estonia, sustaining preparedness for responding swiftly to any positive developments in the Ukrainian construction market, and keeping a keen eye on developments in Lithuania and Latvia.

## The Group's structure by 2013

According to the development strategy, by 2013 the Group should be represented in its four main target markets in both the buildings and infrastructure construction segments. In each country, the Group should have a company or subgroup involved in buildings construction and another engaged in infrastructure. All companies should focus on their assigned core business and all or the majority of their shares should be held by the Group's parent Nordecon International AS. The above corporate structure was selected in consideration of the following factors:

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



**Note:** Light colours indicate subgroups that currently do not exist but reflect the Group's opportunities for future growth. The Group was operating in the Latvian infrastructure market in 2008-2009 but exited the market at the beginning of 2010. At the date of release of this report, the Group has no entities registered in Latvia.



## Changes in the Group's management structure and operations in 2009

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

For implementing the development strategy, in 2009 the management principles and structures of the Group's parent and major subsidiaries were successfully changed. The purpose was to adopt a new management model where the parent would deal with the Group's strategic management and the provision of Group-wide support services while the expertise for managing the Group's anchor skills would be transferred to the largest subsidiaries, which would each focus on its core business in a clearly defined sector and market.

### Changes on the board of Nordecon International AS

On 5 January 2009, the board of Nordecon International AS started with three members – Jaano Vink (chairman of the board), Sulev Luiga (member of the board, director of finance) and Priit Tiru (member of the board, buildings construction director).

Sulev Luiga was recalled from the board early based on a council resolution effective as of 16 October 2009. At the level of the board, his responsibilities as the director of finance were taken over by Jaano Vink. Routine finance and investor relations management activities were assigned to the head of investor relations Raimo Talviste. The council of the Group does not intend to appoint any additional board members in the foreseeable future but expects activities at the Group's parent company to be effectively reassigned.

### Changes in the management structures of major subsidiaries

Erkki Suurorg and Priit Pluutus who were members of the board of Nordecon International AS (at the time AS Eesti Ehitus) in 2008 continued working for the Group as the chairman and a member of the board of Nordecon Infra AS (formerly AS Aspi) respectively. Margus Vaim, the former chairman of the board of Nordecon Infra AS, stepped up as the director of the infrastructure division of Nordecon International AS (remaining in office until March 2010).

Avo Ambur who was also a member of the board of Nordecon International AS in 2008 continued working for the Group as a member of the board of Nordecon Ehitus AS (formerly AS Linnaehitus). Priit Jaagant who was previously the chairman of the board of Group company Nordecon Batoon OÜ (formerly OÜ Mapri Projekt) became the chairman of the board of Nordecon Ehitus AS. The former chairman of the board of Nordecon Ehitus AS Priit Tiru stepped up as a member of the board and buildings construction director at the Group's parent company.

### Reassignment of responsibilities within the Group

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

In the first stage of streamlining, the responsibilities of Group companies were clearly defined and assigned. The Group's strategic management and the management of the Group's support processes have been gradually transferred to the parent company by which Nordecon International AS has become essentially a holding company that has to ensure the coordinated development of the Group. Despite this, if necessary, Nordecon International AS will continue participating in major domestic and international construction tenders, where it expects to derive its competitive edge by harnessing and combining the competencies of its subsidiaries. In 2010, the parent will concentrate on further development of centralised Group-wide support functions (financial, legal, personnel and similar services) and strategic business management.

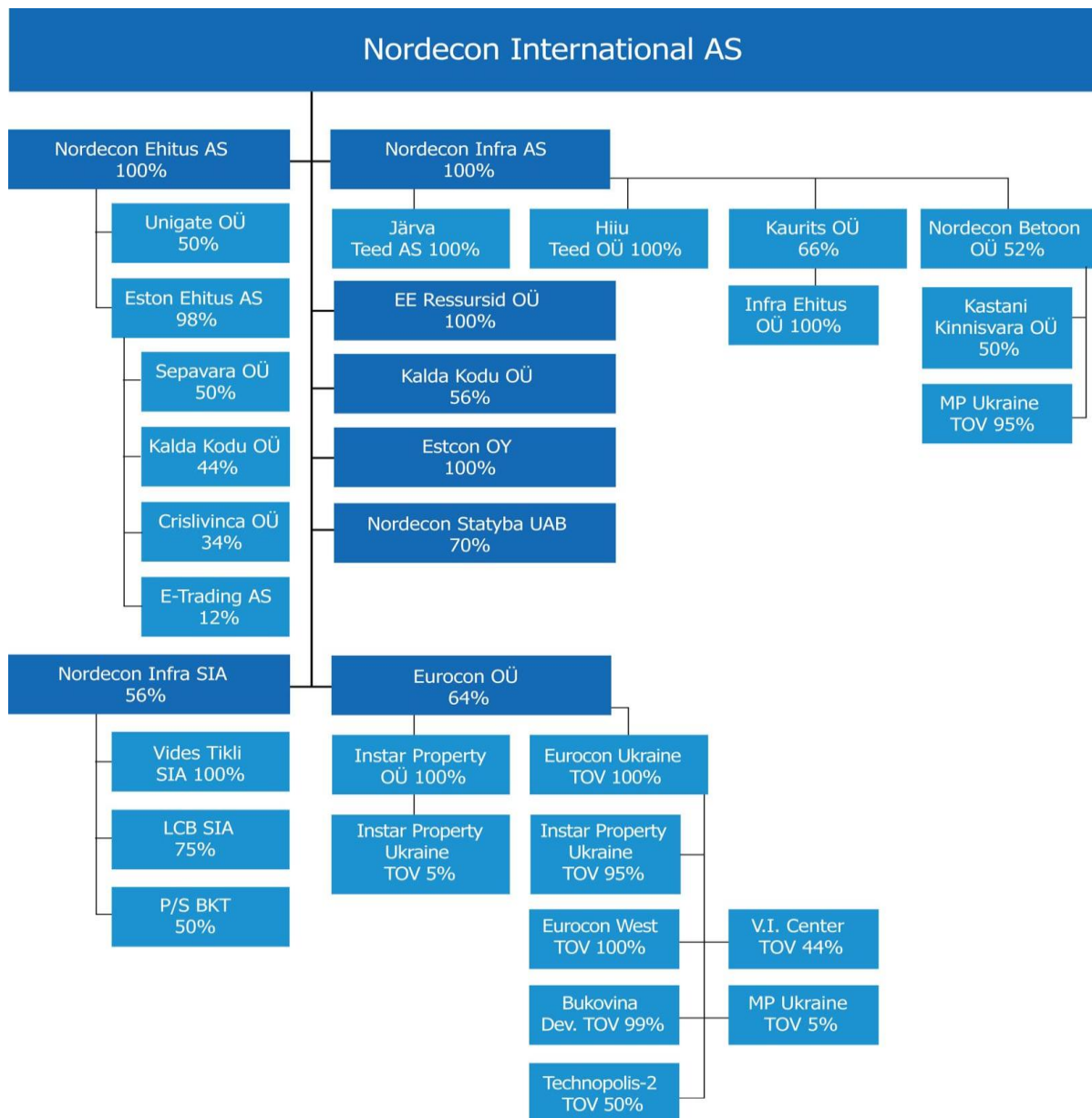
The Group's core business is conducted by its subsidiaries. To ensure implementation of the Group's strategy, in 2009 the parent assigned its representatives to the councils of the main subsidiaries. For structural streamlining, the core competencies have been separated into two main groups – buildings and infrastructure. Business activities have been divided between the main subsidiaries on the same principle (see the next section *Changes in the subsidiaries' business activities in 2009*). This allows assembling the Group's best expertise in companies that can best employ it for further improving their operating efficiency and effectiveness.

### Changes in the subsidiaries' business activities in 2009

- In Estonia, the main buildings construction operations have been assembled in Nordecon Ehitus AS that is represented in Northern Estonia (Tallinn) and Southern Estonia (Tartu). At the beginning of 2010, Nordecon Ehitus AS became a subgroup comprising all of the Group's Estonian buildings construction and real estate development companies. The last step in the process was the year-end intra-Group acquisition of AS Eston Ehitus operating in buildings construction mostly in Western Estonia (see the section *The Group's structure and major structural changes*).
- Infrastructure operations in Estonia have been assembled in the Nordecon Infra AS subgroup, which also includes subsidiaries involved in road maintenance and the sale and maintenance of construction equipment and machinery.
- Nordecon Betoon OÜ, which is one of the largest concrete works companies in Estonia, continues as a subsidiary of Nordecon Infra AS. In addition to the free market, it provides its services to the Group's buildings construction and infrastructure companies.
- In 2009, the operating activities of the Latvian-based Nordecon Infra SIA (a builder of water and sewerage networks) resulted in a loss and in February 2010 the Group sold its interest in the entity (see the section *The Group's structure and major structural changes*).
- The operations of the Lithuanian-based subsidiary Nordecon Statyba UAB have been suspended and the Group is monitoring market developments. The suspension of activities does not involve any major costs for the Group. The decision has not changed the Group's strategic objectives in the Lithuanian construction market and does not imply the sale or liquidation of the company.
- The Group's Ukrainian construction company Eurocon Ukraine TOV continues operating in its current segments and locations (primarily in Kiev and Lvov), although at significantly reduced capacities. The Group's Ukrainian operations have been extensively restructured with a view to minimising operating expenses while maintaining readiness for re-launching project management services as soon as the need and opportunities arise. Owing to the situation in the real estate market, the Group has suspended development operations at its two remaining Ukrainian real estate companies where it has made equity investments.

## The Group's structure and major structural changes

The Group's structure at 31 December 2009, including interests in subsidiaries and associates<sup>1</sup>



<sup>1</sup> The chart reflects the new business names adopted in 2009 (see *Change in the Group's business name in Management's discussion and analysis*).

The chart does not include the subsidiaries OÜ Eesti Ehitus, OÜ Aspi, OÜ Linnaehitus and OÜ Mapri Projekt that were established to protect the former business names and do not conduct any active business operations.

### Major changes in the Group's structure in 2009

#### Nordecon International AS

In January 2009, Nordecon International AS acquired a 56% stake in the Estonian company OÜ Kalda Kodu. The remaining 44% of the entity's capital was already held by the Group's subsidiary AS Eston Ehitus (the Group's interest at the date of release of this report is approximately 98%). Altogether, at the end of 2009 the Group held 99% of the shares in OÜ Kalda Kodu. The core business of OÜ Kalda Kodu is real estate development in the city of Pärnu.

In April, Nordecon International AS acquired a 56% stake in the Latvian entity Nordecon Infra SIA, a builder of water and sewerage networks, from Nordecon Infra AS. After the intra-Group transaction, Nordecon Infra SIA became a direct subsidiary of the Group's parent company. The transaction did not change the Group's interest in Nordecon Infra SIA. The restructuring was prompted by the Group's development strategy (see *The Group's structure by 2013*). See also *Significant structural changes after the reporting date*.

In April, Nordecon International AS registered its wholly owned subsidiary OÜ Eesti Ehitus. The entity was established to protect the former business name ("Eesti Ehitus") from potential misuse. The company is not going to engage in any real business activities.

In July and August 2009, Nordecon International AS acquired an additional 45.7% stake in AS Eston Ehitus from the non-controlling shareholders, raising the Group's interest in AS Eston Ehitus to 97.7%. The core business of AS Eston Ehitus is buildings construction. See also the changes involving Nordecon Ehitus AS.

#### **Nordecon Infra SIA**

In December 2008, the Latvian subsidiary Nordecon Infra SIA signed a contract by which it acquired a 75% interest (and the Group a 42% interest) in the Latvian road construction company SIA LCB. The title to the shares transferred in January 2009. See also *Significant structural changes after the reporting date*.

#### **OÜ Kaurits**

In February 2009, OÜ Kaurits acquired an additional 34% interest in OÜ DSN Ehitusmasinad, a company engaged in the sale of construction equipment and machinery, becoming the entity's sole shareholder. After the transaction, the Group's ownership interest in OÜ DSN Ehitusmasinad was 66%.

In September 2009, the shareholders of OÜ Kaurits and OÜ DSN Ehitusmasinad approved the merger of the two companies. The financial statements of the entities were combined as of 1 October 2009. At the date of the merger, OÜ Kaurits owned 100% of the shares in OÜ DSN Ehitusmasinad. The merger did not change Nordecon International AS' interest in OÜ Kaurits.

#### **Nordecon Ehitus AS**

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

In April, Nordecon Ehitus AS registered its wholly owned subsidiary OÜ Linnaehitus. The entity was established to protect the former business name ("Linnaehitus") from potential misuse. The company is not going to engage in any real business activities.

In December, Nordecon Ehitus AS acquired through an intra-Group transaction a 98% interest in Nordecon International AS' former Estonian subsidiary AS Eston Ehitus. The transaction did not change the Group's interest in AS Eston Ehitus. The restructuring was prompted by the Group's development strategy (see *The Group's structure by 2013*).

#### **Nordecon Infra AS**

In April 2009, Nordecon Infra AS registered its wholly owned subsidiary OÜ Aspi. The entity was established to protect the former business name ("Aspi") from potential misuse. The company is not going to engage in any real business activities.

In May 2009, Nordecon Infra AS acquired a 52% interest in Nordecon Betoon OÜ (formerly OÜ Mapri Projekt) from Nordecon International AS. The intra-Group transaction did not change the Group's interest in Nordecon Betoon OÜ. The restructuring was prompted by the Group's development strategy (see *The Group's structure by 2013*).

#### **Nordecon Betoon OÜ**

In June 2009, Nordecon Betoon OÜ registered its wholly owned subsidiary OÜ Mapri Projekt. The entity was established to protect the former business name ("Mapri Projekt") from potential misuse. The company is not going to engage in any real business activities.

### **Eurocon Ukraine TOV**

In June 2009, Eurocon Ukraine TOV completed the divestment of its 3% interest in Passage Theatre TOV. After the transaction, the Group has no stake in Passage Theatre TOV.

In July 2009, Eurocon Ukraine TOV completed the sale of its 51% interest in the subsidiary EA Reng Proekt TOV, a company engaged in the provision of design services. After the transaction, the Group has no stake in EA Reng Proekt TOV.

In December 2009, Eurocon Ukraine TOV acquired from Group company Instar Property OÜ a 95% stake in the Ukrainian entity Instar Property Ukraine TOV. The intra-Group restructuring did not change the Group's interest in Instar Ukraine TOV. Companies operating under the Instar Property brand are engaged in real estate development in Ukraine.

### **Significant structural changes after the end of the financial year**

#### **Nordecon International AS**

In February 2010, Nordecon International AS sold its 56% stake in the Latvian subsidiary Nordecon Infra SIA along with interests in its subsidiaries. The subsidiary was sold to an external party (a non-controlling shareholder). After the transaction, the Group has no ownership interests in companies registered in Latvia.

## Financial review

### Margins

Nordecon International Group ended 2009 with a gross profit of 136.3 million kroons (8.7 million euros), 62% down from the 357.9 million kroons (22.9 million euros) earned in 2008. The decrease is mainly attributable to a significant decline in the profitability of construction contracts across all segments and the completion of more profitable contracts started in previous periods. In ordinary circumstances, lower than average profitability in the first and fourth quarter results from seasonal factors that impact mainly the road construction business and are counteracted in the second and third quarters. In 2009, however, they were accompanied by exceptionally weak demand in the buildings construction sector throughout the year, which triggered fierce competition and, accordingly, a steep decrease in margins.

The Group ended the year with an operating loss of 126.7 million kroons (8.1 million euros). The comparative period, 2008, ended with an operating profit of 208.5 million kroons (13.3 million euros). The incurrence of an operating loss can be explained by shrinkage in gross profit and the year-end re-measurement of the Group's assets and liabilities.

The Group responded to the anticipated decline in gross profit already at the beginning of 2009 by applying decisive measures for cutting administrative costs with a view to reducing the cost base for the year by 30%. Consolidated administrative expenses for 2009 totalled 125.2 million kroons (8.0 million euros), a roughly 31% decrease year-over-year. However, in 2009 the Group restructured its operations, which gave rise to certain non-recurring expenditures in the form of operating expenses and termination benefits. The ratio of administrative expenses to revenue was 5.2%, which is slightly above the 5% target set by management but acceptable in view of the downturn in the construction market. The Group remains committed to the aim of reducing the cost base in 2009-2010 by up to 30% compared with 2007-2008, and is prepared to adopt resolute measures to achieve this.

The Group's operating result was also influenced by the impairment losses recognised within *Other expenses*. Impairment losses on receivables and investment properties totalled 42.0 million kroons (2.7 million euros) and 12.5 million kroons (0.8 million euros) respectively. Impairment losses on goodwill amounted to 61.2 million kroons (3.9 million euros). Altogether, the impact of one-off write-down expenses on the Group's operating profit was 115.7 million kroons (7.4 million euros).

Fiscal 2009 ended with a consolidated net loss of 89.4 million kroons (5.7 million euros). The loss attributable to owners of the parent amounted to 45.7 million kroons (2.9 million euros) while the loss attributable to non-controlling interests equalled 43.7 million kroons (2.8 million euros).

The profitability ratios monitored by the Group's management have changed significantly due to dramatic deterioration in the operating environment. The Group's margins have dropped in all markets year-over-year primarily on account of a steep decline in demand. The main sector-specific trend has been the increasing excess of construction capacities over the number of projects on offer. Demand that is insufficient for meeting the needs of all market players has heightened pressure for lowering the prices. Under the circumstances, the Group's gross margin for 2009 dropped to 5.6% (2008: 9.3%).

The Group believes that in the current market situation, the above level of gross margin still allows profitable operation. In the light of new trends emerging in the construction market, the Group intends to continue streamlining its internal processes (improving the efficiency of purchase of services, cost cutting, etc) so as to maintain its gross margin at a level that would ensure that the next financial year will end in an operating profit.

### Cash flows

The Group's operating activities generated a net cash inflow of 99.9 million kroons (6.4 million euros), a significant decrease compared with the inflow for 2008 that was 305.0 million kroons (19.5 million euros). In the current market situation, due to renegotiated and extended settlement terms as well as settlement defaults, cash is collected over a considerably longer period than previously. In addition, net cash receipts are influenced by a decline in the projects' profit margins. The Group's ability to maintain a positive net operating cash flow depends on how well it can adapt to the new economic environment (e.g. by extending settlement terms with subcontractors) and the extent to which operating costs can be cut.

Investing activities for 2009 resulted in a net outflow of 54.0 million kroons (3.5 million euros) compared with an outflow of 156.6 million kroons (10.0 million euros) for 2008. Acquisitions of investments in subsidiaries, associates

and joint ventures (including disposals) generated a net outflow of 25.5 million kroons (1.6 million euros). The corresponding figure for 2008 was a net outflow of 139.1 million kroons (8.9 million euros).

Financing activities generated a net outflow of 116.9 million kroons (7.5 million euros). The corresponding figure for 2008 was an outflow of 88.2 million kroons (5.6 million euros). Debt financing has decelerated because business volumes are not growing and in net terms financial liabilities are decreasing. The period's net outflow from interest-bearing loans and borrowings (excluding interest expense) was 56.1 million kroons (3.6 million euros) against a net inflow of 49.4 million kroons (3.2 million euros) in 2008. The remainder of financing cash flows was made up of a dividend distribution of 31.9 million kroons (2.0 million euros) compared with 104.1 million kroons (6.7 million euros) for 2008.

## Investment

In 2009, the Group's investment remained modest compared with previous years. In light of the plummeting construction volumes, investment was not a priority. Hence, the carrying values of all long-term investments decreased (on account of both depreciation and amortisation and write-down). The largest amounts were directed at the acquisition of property, plant and equipment and intangible assets; corresponding investments amounted to 10 million kroons (0.6 million euros) and 29.7 million kroons (1.9 million euros) respectively. Intangible assets increased primarily on account of goodwill acquired on the acquisition of subsidiaries.

### Changes in the carrying values of non-current assets

Asset	EEK'000		EUR'000	
	2009	2008	2009	2008
Investments in equity accounted investees	-3,736	-39,243	-239	-2,508
Long-term financial assets	-337	337	-22	22
Investment property	-28,808	-17,201	1,841	-1,099
Property, plant and equipment	-59,180	41,547	-3,782	2,911
Intangible assets	-36,955	31,965	-2,362	1,043

Management does not expect any major changes in the Group's investment behaviour in 2010.

## Key financial figures and ratios

Figure / ratio	2009	2008	2007	2006	2005
Weighted average number of shares <sup>1</sup>	30,756,728	30,756,728	30,756,728	30,756,728	30,756,728
Earnings per share (in kroons)	-1.49	4.73	8.70	5.75	2.82
Earnings per share (in euros)	-0.09	0.30	0.56	0.37	0.18
Revenue growth	-37.5%	3.1%	49.9%	49.5%	5.4%
Average number of employees	1,128	1,232	1,103	871	722
Revenue per employee (in thousands of kroons)	2,144	3,140	3,402	2,875	2,319
Revenue per employee (in thousands of euros)	137	201	217	184	148
Personnel expenses to revenue	15.0%	12.7%	12.3%	11.0%	10.9%
Administrative expenses to revenue	5.2%	4.7%	4.6%	5.0%	4.3%
EBITDA (in thousands of kroons)	4,308 <sup>c</sup>	281,161	370,581	236,367	143,850
EBITDA (in thousands of euros)	275	17,969	23,684	15,107	9,194
EBITDA margin	0.2%	7.3%	9.9%	9.4%	8.6%
Gross margin	5.6%	9.3%	13.3%	12.2%	10.5%
Operating margin	-5.2%	5.4%	8.2%	8.2%	7.0%
Operating margin excluding gains on asset sales	-5.4%	5.3%	7.8%	7.0%	6.2%
Net margin	-3.7%	4.4%	7.7%	7.6%	5.6%
Return on invested capital	-4.1%	19.1%	32.7%	33.2%	31.1%
Return on assets	-6.0%	9.1%	17.1%	17.3%	15.8%
Return on equity	-11.4%	20.5%	44.1%	53.6%	59.9%
Equity ratio	37.1%	36.5%	36.9%	35.8%	20.2%
Gearing	26.4%	18.2%	13.5%	14.3%	26.3%
Current ratio	1.47	1.33	1.30	1.33	1.08

As at 31 December	2009	2008	2007	2006	2005
Order book (in thousands of kroons)	1,530,661	2,220,748	2,526,652	2,453,419	1,232,349
Order book (in thousands of euros)	97,827	141,932	161,482	156,802	78,761

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

<sup>2</sup> For the purposes of calculating EBITDA, non-cash expenses included depreciation and amortisation as well as impairment losses on goodwill of 61,206 thousand kroons.

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

## Performance by geographical market

Revenue earned outside Estonia in 2009 accounted for approximately 15% of consolidated revenue against approximately 20% a year ago. The contribution of foreign operations declined primarily on account of developments in the Ukrainian market. Further information on the general development of the Group's geographical markets can be found in the section *Outlooks of the Group's geographical markets*.

	2009	2008	2007	2006	2005
Estonia	86%	80%	88%	91%	91%
Ukraine	3%	12%	11%	9%	9%
Lithuania	0%	2%	1%	0%	0%
Latvia	11%	6%	0%	0%	0%

### Estonia

In all the markets where the Group operates, demand continued declining sharply throughout 2009. The Group was able to make the best use of its competitive advantages in Estonia where operations increased relative to other markets, mainly thanks to the Group's strong representation in both the buildings and infrastructure sectors.

### Latvia

In 2009, the Group expanded its operations in Latvia – by the year-end Latvian revenues accounted for around 11% of the total while in 2008 the proportion was 6%. However, since the Latvian operations were generating a loss, the Group divested its Latvian entities at the beginning of 2010.

As a result, the Group expects that its Latvian revenues will decrease sharply in 2010. In the next few years, the Group will continue project-based business in Latvia through its Estonian subsidiaries, involving partners where necessary. However, continuation of project-based operations assumes the availability of profitable projects.

### Lithuania

In 2009 the Lithuanian Group company completed the construction of a commercial and residential building in Vilnius but was unable to sign new contracts after that. The situation resulted from the insufficient experience of the entity established in 2007 as well as lack of a significant competitive edge in the falling Lithuanian market. To date, the Group has suspended active operations in Lithuania (see the section *Changes in the Group's management structure and operations in 2009*).

### Ukraine

In 2009, the contribution of Ukrainian revenues dropped to approximately 3%. The downturn is mainly attributable to the completion of major projects started in the previous period and the complexity of entering into new contracts in a recessionary economic environment. The main obstacles to growth in the demand for construction services were political instability and the reluctance of banks operating in the area to extend loans to companies.



In 2009, the Group consolidated its Ukrainian operations by disposing of interests in the property developer TOV Passage Theatre (development project complete) and design services company EA Reng TOV. In addition, the remaining Group companies were downsized and their costs significantly cut.

## Performance by business line

The core business of Nordecon International Group is general contracting and project management in buildings and infrastructure construction. In these areas, the Group is involved, among other things in road construction and maintenance, environmental engineering, port construction concrete works and real estate development.

Consolidated revenue for 2009 amounted to 2,418.9 million kroons (154.6 million euros), a 37.5% decrease from the 3,867.9 million kroons (247.2 million euros) generated in 2008. Revenue has decreased mainly on account of shrinkage in demand in all of the Group's markets. In addition, the absolute revenue figure has been impacted by stiff competition that has lowered the construction prices (see also the section *Outlooks of the Group's geographical markets* in *Management's discussion and analysis*).

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

### Segment revenue

In contrast to previous years, in 2009 the revenue generated by the Infrastructure segment exceeded that of Buildings. This results mainly from the situation in the construction market (particularly in Estonia) that has caused the order book of the Infrastructure segment to develop more favourably already since the second half of 2008.

In 2009, the Buildings and Infrastructure segments generated revenue of 1,055.4 million kroons (67.5 million euros) and 1,339.2 million kroons (85.6 million euros) respectively. The corresponding figures for 2008 were 2,136.9 million kroons (136.6 million euros) and 1,698.5 million kroons (108.6 million euros) respectively. The 51% decrease in the revenue generated by the Buildings segment corresponded to management's assessment of the market situation and was therefore anticipated.

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

Business segments	2009	2008	2007	2006	2005
Buildings	45%	63%	53%	54%	55%
Infrastructure	55%	37%	47%	46%	45%

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

Management estimates that because of the market situation the proportion of revenue generated by the Infrastructure segment in 2010 will continue increasing compared with 2009. The assessment is supported by the Group's order book as at 31 December 2009 where the contracts of the Infrastructure segment exceed those of the Buildings segment (see *Order book* in *Management's discussion and analysis*).

### Revenue distribution within segments

The distribution of the Group's buildings construction revenue has remained stable, with Commercial buildings accounting for over 50% of the total. The growth in the contribution of the Commercial buildings sub-segment to two thirds of segment revenue is attributable to two large projects: the building of the Nordea Bank in Tallinn and an extension to the Lõunakeskus shopping mall in Tartu. As anticipated, revenues from the construction of industrial and warehouse facilities and apartment buildings have decreased. On the other hand, the downturn in construction prices has triggered slight growth in the construction of public buildings thanks to municipal investments in schools, nurseries and other public buildings. However, in spite of attractive construction prices, further growth in local government projects may be undermined by financing difficulties.

Revenue distribution in the Buildings segment	2009	2008	2007	2006	2005
Commercial buildings	66%	59%	58%	41%	37%
Industrial and warehouse facilities	10%	16%	9%	24%	17%
Public buildings	18%	14%	19%	18%	35%
Apartment buildings	6%	11%	14%	17%	11%

Growth in the operations of the Nordecon Infra SIA subgroup in 2008-2009 caused structural shifts in revenue distribution within the Infrastructure segment compared with 2007. The contribution of other engineering projects increased largely on account of growth in the construction of water and sewerage networks. Due to the divestment of Nordecon Infra SIA in 2010, the contribution of other engineering projects is expected to decline (see *Outlooks of the Group's geographical markets*). Environmental engineering revenues have expanded thanks to a decline in construction prices that has increased investments by state and local government. The contribution of port construction that has always been dependent on the ports' investment strategies (both in Tallinn and Sillamäe) contracted notably. In 2009, the Group completed some major projects started in prior periods but owing to the economic environment the ports have postponed their investment decisions.

Revenue distribution in the Infrastructure segment	2009	2008	2007	2006	2005 <sup>1</sup>
Road construction and maintenance	49%	45%	41%	58%	56%
Port construction	12%	24%	33%	14%	-
Other engineering	31%	25%	13%	0%	44%
Environmental engineering	8%	6%	13%	27%	-

<sup>1</sup> In 2005 the Group did not keep separate account of the contributions of port construction and environmental engineering.

## A selection of completed projects

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

Brief description of the project	Performer	Customer	Operating segment
Construction and design of Berths 8 and 9 at Paldiski Port. Total length of the berths 408m, dredging works of 14m and 830,000m <sup>3</sup>	Nordecon Infra	AS Tallinna Sadam	Port construction
Construction of Berth 8 at Virtsu Port. Total length of the berth 160m; dredging works of 7m and 55,000m <sup>3</sup>	Nordecon Infra	AS Saarte Liinid	Port construction
Design and construction of water and sewerage networks in Kärla, Salme and Valjala municipalities in Saaremaa. Network length: 20.9km	Nordecon Infra	Karla, Salme, Valjala municipal governments	Other engineering
Road no 92 Tartu-Viljandi-Kilingi-Nõmme (km 7.2-23.60), renovation of the Rõhu-Puhja section. Asphaltting works of 345,000m <sup>2</sup>	Nordecon Infra	Estonian Road Administration	Road construction
Road no 5 Pärnu-Rakvere-Sõmeru (km 78.6-83.2), repair of the Türi-Kirna section. Laying of asphalt concrete surfacing of 139,738m <sup>2</sup>	Nordecon Infra	Estonian Road Administration	Road construction
Construction of the Nordea office building with an area of 16,000m <sup>2</sup> . Building height 55m and depth -13m	Nordecon Ehitus	OÜ Liivalaia Arendus	Commercial buildings
Phase 6 of the Lõunakeskus shopping mall in Tartu. Construction works of 24,420m <sup>2</sup>	Nordecon Ehitus	OÜ Lõunakeskus	Commercial buildings
Jõhvi sports centre with a hall and an administrative unit for the local secondary school and community. Construction works of 3,754m <sup>2</sup>	Nordecon Ehitus	Jõhvi Municipal Government	Public buildings
Hostels of Tallinn University of Technology. Demolition of two old hostels and construction of new ones together with a connecting underground car park	Nordecon Ehitus	Tallinn University of Technology	Public buildings
Greif OÜ printing house. Industrial printing facility including offices. Total area: 7,555m <sup>2</sup>	Nordecon Ehitus	OÜ Greif	Industrial facilities
Concrete works for the Vabaduse Square car park in Tallinn. Total volume: 5,800m <sup>3</sup> of concrete	Nordecon Betoon	AS Oma Ehitaja	Public buildings
Sadala Agro silage pit. Construction works of 3,466m <sup>4</sup>	Nordecon Betoon	Sadala Piim OÜ	Environmental engineering
Otepää Veneer and Plywood Plant. Construction works of 4,750m <sup>2</sup>	Eston Ehitus	UPM-Kymmene Otepää AS	Industrial facilities
Pärnu Keskus (Pärnu Centre) A building with 7 floors and a net construction area of 14,034m <sup>2</sup>	Eston Ehitus	OÜ Aida Partnerid	Commercial buildings, Apartment buildings
Opera shopping mall in Lvov, Ukraine. 6 floors; construction works of 6,260m <sup>2</sup>	Eurocon Ukraine	Passage Theatre	Commercial buildings
Extension of the water and sewerage networks of the Sampeteris residential district in Riga, Latvia. Length of network built: over 42km	Nordecon Infra SIA	SIA Rigas Udens / Latvian Ministry of the Environment	Other engineering

Construction of the Water Treatment Plant for the city of Kegums, Latvia      Nordecon Infra SIA      SIA Keguma Stars / Latvian Ministry of the Environment      Environmental engineering

## Order book

At 31 December 2009, the Group's order book stood at 1,530.7 million kroons (97.8 million euros), approximately a third down from the 2,220.7 million kroons (141.9 million euros) posted a year ago.

As at 31 December	2009	2008	2007	2006	2005
Order book, in thousands of kroons	1,530,661	2,220,748	2,526,652	2,453,419	1,232,349
Order book, in thousands of euros	97,827	141,932	161,482	156,802	78,761

The order book of the Infrastructure segment has been growing year-over-year. At 31 December 2009 it accounted for 74% of the Group's total order book (31 December 2008: 59%), reflecting the situation in the construction market where shrinkage in the Buildings segment has significantly outpaced growth in the Infrastructure segment. In absolute terms, the order book figures have been severely weakened by tumbling construction prices.

Between the reporting date (31 December 2009) and the date of release of this report, Group companies have been awarded additional construction contracts of approximately 160 million kroons (10.2 million euros).

## People

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

### People and personnel expenses

In 2009, the Group (including the parent and the subsidiaries) employed, on average, 1,128 people including around 470 engineers and technical personnel (ETP). The acquisition of the Latvian company SIA LCB in 2009 increased the number of staff by more than 100. However, since the end of 2008 personnel growth has been replaced by a decline owing to downsizing and termination of contracts triggered by a significant decrease in the Group's operations.

### Average number of the Group's employees (including the parent and its subsidiaries)

Year	ETP	Workers	Total average
2009	467	661	<b>1,128</b>
2008	511	721	<b>1,232</b>
2007	425	678	<b>1,103</b>
2006	329	542	<b>871</b>
2005	261	461	<b>722</b>

The Group's team is dynamic and energetic. The average age of Group companies' board members is 38 and that of engineers and technical personnel 35. On average, the staff have been with the group for six to seven years and men and women account for 88% and 12% of the staff respectively.

The Group's personnel expenses for 2009, including associated taxes, totalled 363.5 million kroons (23.2 million euros), a 27% decrease compared with the 498.6 million kroons (31.9 million euros) incurred in 2008.

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Personnel expenses have declined on account of downsizing and the cutting of basic salaries. Employee salaries have been lowered at all Group entities; the average pay-cut for engineers and technical personnel was 15%. The performance pay of project staff that is linked to the projects' profit margins has also dropped.

Owing to the overall economic situation and the slump in the construction market, in 2009 Group entities made approximately 380 people redundant. However, this is not directly reflected in the total average number of employees because the latter is influenced by the staff taken over on the acquisition of subsidiaries and the people hired during the year under fixed term contracts. At 31 December 2009, the Group had 952 employees (31 December 2008: 1,222). The decrease in the number of staff may continue in 2010 but considerably more slowly

except for the effect of the divestment of Nordecon Infra SIA that reduced the number of the Group's employees in February 2010 by around 150.

In 2009, the remuneration of the members of the council of Nordecon International AS including social security charges amounted to 1,436 thousand kroons (92 thousand euros). The corresponding figure for 2008 was 1,443 thousand kroons (92 thousand euros). The remuneration and benefits of the members of the board of Nordecon International AS including social security charges totalled 3,254 thousand kroons (208 thousand euros) compared with 14,514 thousand kroons (928 thousand euros) in 2008. The differences in the remuneration of the board stem from the fact that from 5 January 2009 the board had three members and since October 2009 there have been two members while in 2008 the number was five (see the section *Changes in the Group's management structure and operations in 2009*). In addition, the figure has been impacted by a 15% reduction in board member remuneration across the Group.

### Employee training and further education

In 2009 the Group continued offering its people various training opportunities with a particular focus on teamwork and change management courses designed to help the staff cope with the extensive reorganization and restructuring undertaken by the Group. Professional training for improving professional qualifications also remained a priority.

The Group motivates the staff to gather personal references, which inspires project managers and teams to undertake increasingly larger and more complicated projects and to seek more innovative and economical solutions. The process facilitates teamwork and intra-Group knowledge sharing.

Nordecon recognises the contribution of its experienced staff. People who reach their retirement age but are willing to continue sharing their expertise are offered individual solutions for continuing to contribute to the development of the Group.

The Group finds new specialists from Tallinn University of Technology, Tallinn College of Engineering and Estonian University of Life Sciences. In 2009, the Group employed approximately 60 students, over a third of them in the process of acquiring their master's degree. Altogether, 75% of the ETP staff either have or are obtaining a university degree. Unfortunately, because of the slump in the construction market, the number of young people to whom the Group can offer industry training has decreased

### Charitable activities and social responsibility

Every year the Group supports a number of charitable projects and organisations. Despite the economic challenges of 2009, the Group was able to find possibilities for supporting various initiatives with a total of 4.1 million kroons (0.26 million euros). In 2008 the corresponding figures was 4.5 million kroons (0.3 million euros).

In 2009, the Group continued contributing to society through the coalition *Companies against HIV*, which was established in 2007 in partnership with the Healthy Estonia Foundation and other responsible companies such as Swedbank, Statoil, TNS Emor and Hill & Knowlton. The purpose of the project is to improve dissemination of information about HIV and limiting the spread of the epidemic with the assistance of the private sector. On joining the coalition, Nordecon International undertook to disseminate information about HIV within the Group and to support the performance of public notification programmes. Staff training began in the second half of 2008. Nordecon International will continue its contribution to the coalition also in the future.

The Group's priority is to support organisations and institutions with a social focus such as the Development Foundation of the Tallinn University of Technology, the Healthy Estonia Foundation and the Nõmme Private School Foundation.

In addition, Group companies are active sponsors of sports organisations such as the Junior Team of the Estonian Ski Association, the volleyball club Tartu Pere Leib and the basketball club of Tallinn University of Technology. In addition, the Group supports the world champion and winner of the 2008 Beijing Olympics Gerd Kanter.

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

## Share and shareholders

### Share information

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

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

### Movements in the price and traded volume of the Nordecon International share in 2009

#### In Estonian kroons (EEK)



#### In euros (EUR)



### Movement of the Nordecon International share compared with the OMX Tallinn main index in 2009



Index/Equity	1 Jan 2009	31 Dec 2009	+/-%
—OMX Tallinn	274.83	404.58	+47.21
—NCN1T	EUR 1.02	EUR 1.58	+54.90

### Summarised trading results

#### Share trading history (EEK)

Price	2009	2008	2007 <sup>1</sup>	2006 <sup>1,2</sup>
Open	16.43	76.51	83.32	48.51
High	29.26	76.51	112.27	93.88
Low	8.61	14.86	69.00	45.85
Last closing price	24.72	15.96	76.67	82.69
Traded volume	9,627,956	6,447,283	7,284,775	5,023,787
Turnover, millions	188.24	313.68	845.09	563.6
Listed volume (31 December), thousands	30,757	30,757	30,757	30,757
Market capitalisation (31 December), millions	760.36	490.86	2,358.07	2,543.30

#### Share trading history (EUR)

Price	2009	2008	2007 <sup>1</sup>	2006 <sup>1,2</sup>
Open	1.05	4.89	5.33	3.10
High	1.87	4.89	7.18	6.00
Low	0.55	0.95	4.41	2.93
Last closing price	1.58	1.02	4.90	5.28
Traded volume	9,627,956	6,447,283	7,284,775	5,023,787
Turnover, millions	12.03	20.05	54.01	36.02
Listed volume (31 December), thousands	30,757	30,757	30,757	30,757
Market capitalisation (31 December), millions	48.60	31.37	150.71	162.55

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

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

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

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

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

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

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

## Shareholder structure

### The largest shareholders of Nordecon International AS at 31 December 2009

Shareholder	Number of shares	Ownership interest
AS Nordic Contractors	16,507,464	53.67
Skandinaviska Enskilda Banken Ab Clients	2,608,822	8.48
State Street Bank and Trust Omnibus Account A Fund	1,147,911	3.73
ING Luxembourg S.A.	1,111,853	3.61
Ain Tromp	678,960	2.21
ASM Investments OÜ	519,600	1.69
SEB Pank AS	405,757	1.32
Aivo Kont	339,480	1.10
Raul Rebane	316,104	1.03

On 4 September 2009, AS Nordic Contractors announced that it had sold 2,300,000 shares in Nordecon International AS (7.48% of all shares) to institutional investors. By the transaction, the ultimate controlling party's interest in Nordecon International AS dropped to 53.67%. On 16 September 2009, East Capital Asset Management AB announced that East Capital Group's stake in Nordecon International AS (through nominee accounts) was 5.04%.

### Shareholder structure at 31 December 2009

	Number of shareholders	Ownership interest
Shareholders with interest exceeding 5%	2	62.15%
Shareholders with interest between 1% and 5%	7	14.70%
Shareholders with interest below 1%	1,882	23.15%
<b>Total</b>	<b>1,891</b>	<b>100.00%</b>

### Shares controlled by members of the council of Nordecon International AS at 31 December 2009

Council		Number of shares	Ownership interest
Toomas Luman (AS Nordic Contractors, OÜ Luman ja Pojad) <sup>1</sup>	Chairman of the Council	16,559,144	53.84
Ain Tromp	Member of the Council	678,960	2.21
Alar Kroodo (ASM Investments OÜ) <sup>1</sup>	Member of the Council	519,600	1.69
Andri Hõbemägi	Member of the Council	40,000	0.13
Tiina Mõis	Member of the Council	0	0.00
Meelis Milder	Member of the Council	0	0.00

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

### Shares controlled by members of the board of Nordecon International AS at 31 December 2009

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

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

## Information on significant transactions with related parties

On 26 March 2009, Nordecon Ehitus AS acquired a 50% stake in OÜ Unigate from AS Arealis, a subsidiary of the Group's controlling shareholder Nordic Contractors AS.

OÜ Unigate is a housing developer incorporated in Estonia that has been developing properties belonging to it in Paekalda street in Tallinn. The investment was made in line with the Group's strategy according to which in 2009-2010 the Group is to prepare for a potential rise of the Estonian real estate market that may take place after 2010. For this, the Group's subsidiaries have to acquire property portfolios that will allow launching housing construction projects as soon as the market sentiment changes.

In accordance with the terms of the transaction, AS Arealis was paid 20.0 million kroons (1.3 million euros) including 1.5 million kroons (0.1 million euros) for an interest in the entity's share capital and 18.5 million kroons (1.2 million euros) for AS Arealis' loan receivables from OÜ Unigate. Depending on the success of the development operations, AS Arealis will also be paid a variable price component that will be calculated at 450 kroons (28.8 euros) per square metre sold. In February 2009, the market value of the properties belonging to OÜ Unigate (the proportion acquired by Nordecon Ehitus AS) was approximately 47.5 million kroons (3.0 million euros).

## Dividend policy

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

Year of payout	Total dividends paid EEK'000/ EUR'000	Number of shares, in thousands	Dividend per share EEK'000/ EUR'000	Dividend payout ratio <sup>1</sup>
2006	30,000 / 1,917	3,482	8.61/0.55	34.6%
2007	46,135 / 2,950	15,378	3.00/0.19	26.1%
2008	92,270 / 5,897	30,757	3.00/0.19	34.5%
2009	30,756 / 1,966	30,757	1.00/0.06	21.1%

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

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

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

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



## Description of the main risks

### Business risks

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

To manage their daily construction risks, Group companies purchase Contractors' All Risks insurance. Depending on the nature of the project, both general frame agreements and specially tailored project-specific contracts are used. In addition, as a rule, subcontractors are required to secure the performance of their obligations with a bank guarantee issued for the benefit of a Group company. To remedy builder-caused deficiencies which may be detected during the warranty period, all Group companies create warranties provisions. At 31 December 2009, the provisions (including current and non-current ones) totalled 16.6 million kroons (1.1 million euros). The corresponding figure at 31 December 2008 was 14.6 million kroons (0.93 million euros).

### Credit risk

For credit risk management, a potential customer's settlement behaviour and creditworthiness are analysed already in the tendering stage. Subsequent to the signature of a contract, the customer's settlement behaviour is monitored on an ongoing basis from the making of an advance payment to adherence to the contractual settlement schedule, which usually depends on the documentation of the delivery of work performed. We believe that the system in place allows us to respond to customers' settlement difficulties with sufficient speed. As at the end of the reporting period, our customers' settlement behaviour was good, considering the economic situation; however, there were also some large problem customers. The proportion of overdue receivables has increased, increasing the probability of credit losses also in subsequent periods. In accordance with the Group's accounting policies, all receivables that are more than 180 days overdue or in respect of which no additional settlement agreements have been reached are recognised as an expense.

In 2009, net loss on doubtful receivables amounted to 42.0 million kroons (2.7 million euros). In 2008, recoveries of receivables written down in preceding periods exceeded the period's impairment losses on receivables by 9.0 million kroons (0.6 million euros).

### Liquidity risk

Free funds are placed in overnight or fixed-interest term deposits with the largest banks in the markets where the Group operates. To ensure timely settlement of liabilities, approximately two weeks' working capital is kept in current accounts or overnight deposits. Where necessary, overdraft facilities are used. At the reporting date, the Group's current assets exceeded its current liabilities 1.47-fold (31 December 2008: 1.33-fold) and available cash funds totalled 225.2 million kroons (14.4 million euros) (31 December 2008: 296.2 million kroons / 18.9 million euros), providing a sufficient liquidity buffer for operating in an economic environment that is more complicated than in the previous year.

### Interest rate risk

The Group's interest-bearing liabilities to banks have mainly fixed interest rates. Finance lease liabilities have floating interest rates and are linked to EURIBOR. At 31 December 2009, the Group's interest-bearing loans and borrowings totalled 557.3 million kroons (35.6 million euros), a 2.8 million kroon (0.2 million euro) increase year-over-year. Interest expense for 2009 amounted to 26.6 million kroons (1.7 million euros). Compared with 2008, interest expense has contracted by 11.3 million kroons (0.7 million euros) thanks to a decline in the EURIBOR base rate and a decrease in loans and borrowings.

The Group's interest rate risk results mainly from two factors: an increase in the base rate for floating interest rates (EURIBOR) and insufficient operating cash flow that may render the Group unable to settle its interest expense. The first factor is mitigated by fixing, where possible, the interest rates of liabilities during the period of low market interest rates. The realisation of the cash flow risk depends on the success of operating activities. The Group does not use derivatives to hedge the interest rate risk.

## Currency risk

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

The Group's foreign exchange gains and losses result mainly from its Ukrainian operations because the Ukrainian national currency floats against the euro and, consequently, against the Estonian kroon. To date, the weakening of the Ukrainian hryvna against the euro that began in the last quarter of 2008 has stopped. The Group's net exchange loss for 2009 was 0.7 million kroons (0.04 million euros). In 2008, the Group's exchange differences resulted in a gain of 6.6 million kroons (0.4 million euros).

## Economic environment and future outlook

Economic growth in the countries where the Group operates:

	2011 Forecast	2010 Forecast	2009	2008	2007	2006
Estonia <sup>1</sup>	4.2%	-0.1%	-14.1%	-3.6%	7.2%	10.0%
Latvia <sup>1</sup>	2.0%	-4.0%	-18.0%	-4.6%	10.0%	12.2%
Lithuania <sup>1</sup>	2.5%	-3.9%	-15.0%	2.8%	9.8%	7.8%
Ukraine <sup>2</sup>	N/A	3.0%	-14.0%	2.1%	7.9%	7.3%

<sup>1</sup> Information from the Eurostat database; <sup>2</sup> 2006-2009 - information from the World Bank database, 2010 - the IMF forecast

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

The years 2008 and 2009 were characterised by an abrupt decline in economic growth that had serious consequences for the economic environment. Decreasing demand in almost all the economic sectors, rapidly rising unemployment, inflation, speculations about the stability of the exchange rates of the national currencies – these were but some of the problems that countries and companies had to face. Buildings construction that depends on growth in private incomes and corporate investments was one of the first where the problems caused by shrinking demand emerged. In the Group's largest market Estonia, buildings construction volumes contracted by 33% (at constant prices) compared with 2008. The downturn in the infrastructure segment was somewhat slower because the state and local governments continued funding projects financed in cooperation with the EU structural funds. Compared with 2008, construction volumes declined by 17%. Similarly abrupt downward trends appeared in other countries.

Although the economy is expected to recover in 2010-2011, many sectors (including construction) will not bounce back to their pre-crisis levels or even close. Efforts aimed at streamlining through cost-cutting or reducing the budget deficits will be sustained. This means, among other things, that the private sector will continue postponing investment in construction projects. The lag between the adoption of a major national investment decision (e.g. a decision to build a road or public building or structure) and the commencement of construction operations extends to almost a year. Accordingly, in view of the general economic environment the construction sector will not enter a new growth phase until 2011.

On the positive side, the economic environment should be revived by Estonia's potential accession to the euro-zone in 2011 and the banks' recovery from the impacts of the global financial and banking crisis.

## Outlooks of the Group's geographical markets

### Estonia

According to assessment of the Group's management, in 2010 the Estonian construction market will be characterised by the following features:

- Total demand in the construction market will remain heavily dependent on public procurement tenders and projects performed with the support of the European Union funds. Project initiation success depends on the administrative capabilities of the central and local government which have improved compared with previous periods. However, the demand resulting from public sector projects will not be able to compensate for the steep contraction of the buildings construction market that remains abandoned by most private companies and individuals. Accordingly, the Group's management forecasts that by the end of 2010 the total volume of the construction market will have decreased by over 50% compared with 2008.
- The number of residential and general buildings construction companies is decreasing. Companies engaged in the sector are seeking opportunities for penetrating also other market segments such as infrastructure. This has heightened competition which, in turn, has increased the number of companies going bankrupt or needing corporate rehabilitation. The trend will continue in 2010. The Group does not forecast a significant number of mergers or takeovers because in the current market situation this would not have sufficient business rationale.
- In 2010 the decrease in construction prices is expected to cease after which the prices are expected to start rising compared with 2008-2009. In such a situation, performance of construction contracts concluded at unreasonably low margins or below cost may have extremely adverse consequences and may cause serious financial difficulties for companies that have not noticed the trend or have been consciously ignoring it due to cash flow problems.
- Banks have divided companies operating in the construction market into different risk categories. Banks' risk exposures still include the real estate and investment loans granted to companies that were engaged in real estate development. In 2010, the survival of a number of companies will depend on the banks' risk management principles. On the other hand, the banks have announced that they are again ready to start financing the construction sector although to a limited extent.
- In 2009, building materials manufacturers that had significantly increased their output during the growth phase of the market experienced continuing shrinkage in demand and, consequently, greater strain in meeting the obligations taken for increasing their capacities. To date, the decline in building materials prices has halted and in 2010 prices are expected to start rising.
- Because of the increasing importance of infrastructure projects, the key competitive advantages will include industry-specific (engineering and technical) expertise, experience and references as well as the availability of relevant resources.
- Shrinkage in construction volumes has caused continuously rising unemployment among construction workers. The ensuing growth in the supply of labour will help construction companies control their personnel expenses.
- Construction projects' financing principles have changed. There are now additional requirements to the funding to be provided by the builder during the construction period. Moreover, contractual settlement terms have lengthened and there are settlement defaults. All this will increase the companies' liquidity risks.

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

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

- Sustaining focus on cost-cutting and seeking effective technical solutions that should halt year-over-year decrease in profit margins in 2010 and ultimately ensure profitability
- Upholding the practice of conducting thorough preliminary analyses of the customers' solvency and creditworthiness and dealing resolutely with the collection of overdue receivables
- Mitigating risks through a more conservative portfolio design that takes into account the fact that input prices have turned (or are turning) to a rise
- Focusing primarily on the home market

## Latvia and Lithuania

In 2009, the Group's Latvian subsidiary Nordecon Infra SIA ran into liquidity difficulties because, owing to a lack of resources and administrative weaknesses, the customers of major projects did not settle their accounts on a timely basis. In addition, the entity was operating in an environment where profitable performance was not possible without taking disproportionate risks. Because the Group incurred losses in the Latvian market in 2009 and the situation in the water and sewerage networks segment was not expected to improve in the foreseeable future, the Group sold its stake in Nordecon Infra SIA in February 2010. According to the Group's assessment, the Latvian construction market will be undergoing extensive adjustment to the recessionary environment through 2010-2011. Therefore, in the next few years the Group will continue operating in Latvia on a project basis, through its Estonian subsidiaries, involving partners where necessary. Continuation of project-based business assumes that the projects can be performed profitably. The decision does not change the Group's strategic objectives in the Latvian market, i.e. the objective of operating in Latvia in the future through local subsidiaries engaged in buildings and infrastructure construction (see the chapter *The Group's structure by 2013*).

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

In response to this, the operations of the Group's Lithuanian subsidiary Nordecon Statyba UAB (formerly UAB Eurocon LT) have been essentially suspended and the Group is monitoring the market situation. The temporary suspension of operations does not cause any major costs for the Group. The Group's management does not exclude the possibility that the Lithuanian operations will remain suspended also after 2010. The decision does not change the Group's strategic objectives in the Lithuanian construction market (see the chapter *The Group's structure by 2013*) and does not imply the sale or liquidation of the company.

## Ukraine

In Ukraine, the Group will continue mainly as a general contractor and project manager in the construction of commercial buildings and production facilities. In 2009, the number of projects started in the buildings construction market decreased substantially. The situation in the sector is not expected to improve until after the first half of 2010. This implies, above all, the need for tight cost control.

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

The main risks in the Ukrainian market are connected with the low administrative efficiency of the central and local governments and the judicial system, inflation, and the availability of quality construction inputs. Demand is mainly undermined by the customers' lack of financing. To date, the weakening of the local currency that began in 2008 has stopped and the Group's exposure to market-based currency risk has decreased considerably. It is also clear that the political climate has stabilised after the important presidential elections, which might pave the way for an improvement in the general economic climate. This, in turn, would revive investment by local and foreign companies who account for a significant proportion of the Group's customers in the Ukrainian market.

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

## Corporate governance report

Nordecon International AS has observed the Corporate Governance Recommendations (CGR) promulgated by the NASDAQ OMX Tallinn Stock Exchange since the flotation of its shares on the NASDAQ OMX Tallinn Stock Exchange on 18 May 2006. This report provides an overview of the governance of Nordecon International AS in 2009 and its compliance with the requirements of CGR. It is recommended that an issuer comply with the CGR or explain the deviations in its corporate governance report. In 2009, Nordecon International AS observed the CGR except where indicated otherwise in this report.

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

### Share and share capital

	<b>Number of ordinary shares outstanding</b>
At 1 January 2009	30,756,728
At 31 December 2009	30,756,728

In 2009, the company's share capital did not change. Share capital consists of ordinary registered shares of one type and with a par value of 10 kroons (0.64 euros). Each share carries one vote at meetings of the company and entitles the holder to a dividend as declared from time to time.

The shares of Nordecon International AS are listed in the main equity list of the NASDAQ OMX Tallinn Stock Exchange (Baltic Main List) under the ticker symbol NCN1T (until 3 April 2009 EEH1T). The share register is maintained by the Estonian Central Register of Securities in electronic format. The ultimate controlling party is AS Nordic Contractors with a 53.67% interest. The members of the governing bodies of Nordecon International AS and its subsidiaries hold additionally approximately 8% of the shares.

## General meeting

### Exercise of shareholder rights

The general meeting is the highest governing body of Nordecon International AS. General meetings are annual and extraordinary. The powers of the general meeting are provided in the Commercial Code of the Republic of Estonia and the articles of association of Nordecon International AS. Under the articles of association, shares of different type do not carry rights which might result in disproportionate treatment of shareholders upon voting. The general meeting has the power to approve the annual report, decide the allocation of profits, amend the articles of association, appoint the auditors, and elect the members of the council. A shareholder may attend the general meeting and vote in person or through a proxy carrying relevant written authorisation.

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

The annual general meeting Nordecon International AS was held on 14 May 2009 at 10.00 a.m. in the Conference Centre of Reval Hotel Olümpia.

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

### The annual general meeting of Nordecon International AS that convened in 2009 adopted the following resolutions:

- To approve the annual report of Nordecon International AS for the year ended 31 December 2008 and the council's written report on the annual report.
- To allocate the profit of Nordecon International AS as follows. The company's net profit for 2008 amounts to 145,580,000 kroons (9,304,258 euros) and the retained earnings of prior periods amount to 281,415,000 kroons (17,985,696 euros). To distribute a dividend of 30,757,000 kroons (1,965,731 euros) or 1 kroon (0.06 euros) per share from the net profit for 2008. To transfer 5,212,000 kroons (333,108 euros) to the capital reserve. To retain

the rest of the net profit for 2008 and the profits of prior periods. After allocations, the company's retained earnings amount to 391,026,000 kroons (24,991,116 euros).

- To appoint audit firm KPMG Baltics AS as the auditor of the company's consolidated financial statements for the year ending on 31 December 2009 and to remunerate the auditor in accordance with the audit services agreement signed with the auditor. The agreement with the auditor was signed in 2008 for three years (2008, 2009 and 2010).

All shares issued by Nordecon International AS are registered ordinary shares. A shareholder may not demand issuance of a share certificate for a registered ordinary share. A shareholder may not demand that a registered share be exchanged for a bearer share. The shares are freely transferable and may be pledged. The board of Nordecon International AS is not aware of any shareholder agreements that restrict the transfer of the shares. Upon the death of a shareholder, the share transfers to the shareholder's heir. From the point of view of Nordecon International AS, a share is considered transferred when the acquirer has been entered in the share register.

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

In 2009, Nordecon International AS complied with the CGR in respect of exercise of shareholder rights.

## Calling of a general meeting and disclosure of information

Notice of a general meeting is given by the board of Nordecon International AS. Notices of annual general meetings and extraordinary general meetings are published in a national daily newspaper at least three weeks in advance and one week in advance respectively. In addition, notices of general meetings are published in the information system of NASDAQ OMX Tallinn Stock Exchange that allows notifying shareholders in other countries. The notice includes information on where the annual report has been or will be made available to the shareholders. The annual report is made available at least two weeks before the general meeting.

Notice of the annual general meeting of 2009 (took place on 14 May 2009) was published in national daily newspapers on time and in the information system of the NASDAQ OMX Tallinn Stock Exchange on 22 April 2009.

The annual report of Nordecon International AS and the council's written report on the company's annual report were made available from 22 April 2009 on the issuer's website at [www.nordecon.com](http://www.nordecon.com) and from 9 a.m. to 5 p.m. on workdays in the company's registered office at Pärnu mnt 158/1, Tallinn. Questions regarding agenda items could be submitted by e-mail to [nordecon@nordecon.com](mailto:nordecon@nordecon.com). Questions, answers, resolutions adopted and statements made at the general meeting, if any, were disclosed on the company's corporate website.

In 2009, Nordecon International AS complied with the CGR in respect of the calling of a general meeting and disclosure of information.

## Conduct of a general meeting

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

The working language of the annual general meeting of 2009 was Estonian. The general meeting was not chaired by the chairman of the council or a member of the board. The general meeting was conducted within the planned timeframe. The general meeting was attended by all members of the company's board, the chairman of the company's council and the company's auditor.

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

The annual general meeting of 2009 was attended by shareholders that represented 65.91% of the votes determined by shares. Accordingly, the meeting had a quorum for adopting resolutions. The meeting adopted a separate resolution regarding the allocation of profits.

In 2009, Nordecon International AS complied with the CGR in respect of the conduct of the general meeting.

## Board

### Responsibilities of the board

The board is a governing body of Nordecon International AS that represents and manages the company in its daily operations. The articles of association allow each member of the board to represent the company in any legal proceedings alone. The board is responsible for ensuring that Nordecon International AS achieves the objectives set by the council. Creation of a suitable environment for the attainment of objectives assumes, among other things, analysing operating and financial risks and organising the company's internal control, accounting and reporting. The board has to observe the lawful instructions of the council of Nordecon International AS.

In 2009 the board of Nordecon International AS met regularly. In addition, extended management meetings were held (including members of the boards of the main subsidiaries) to obtain a better overview of the Group's management and performance.

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

In 2009, the board and council of Nordecon International AS exchanged information in accordance with effective requirements. The board informed the council of the company's performance and financial position on a regular basis.

### Membership and emoluments of the board

#### Membership of the board

The council appoints and removes members of the board and appoints the chairman of the board from among them. In accordance with the articles of association, the board has one to five members who are elected for a term of three years. Members of the board may not be concurrently members of the council. In 2009, the board had the following members:

Name	Position	Beginning of service	End of service
Jaano Vink	Chairman of the Board	5 August 2002	31 July 2011
Sulev Luiga	Member of the Board, Finance Director	9 July 2007	16 October 2009
Priit Tiru	Member of the Board, Technical Director	5 January 2009	4 January 2012

Priit Tiru was appointed as a member of the board effective from 5 January 2009. Previously he was the chairman of the board of Nordecon Ehitus AS. According to the service agreement, his term of office is three years. Based on a decision by the council, finance director Sulev Luiga was recalled from the board early.

#### Emoluments of the board

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

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

In 2009, the emoluments of the members of the board of Nordecon International AS (including all relevant taxes) totalled 3,254 thousand kroons (208 thousand euros). The corresponding figure for 2008 was 14,514 thousand kroons (928 thousand euros). In 2008 the board had five members.

#### Conflict of interest

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

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

In 2009, Nordecon International AS complied with the CGR in respect of the activities of the board.

## Council

### Responsibilities of the council

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

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

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

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

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

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

In 2009, the council of Nordecon International AS held 10 meetings.



## Membership and emoluments of the council

According to the articles of association, the council must have three to seven members. The exact number is decided by the general meeting. Members of the council are elected for a term of five years. Members of the council elect a chairman from among themselves. In 2009, the council had the following members:

Name	Position	Beginning of service	End of service
Toomas Luman	Chairman of the Council, representative of AS Nordic Contractors	9 January 2006	9 January 2011
Alar Kroodo	Vice-Chairman of the Council, representative of small shareholders	9 January 2006	9 January 2011
Andri Hõbemägi	Member of the Council, representative of AS Nordic Contractors	14 May 2008	14 May 2013
Ain Tromp	Member of the Council, representative of small shareholders	9 January 2006	9 January 2011
Tiina Mõis	Member of the Council, independent	9 January 2006	9 January 2011
Meelis Milder	Member of the Council, independent	9 January 2006	9 January 2011

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

In 2009, the remuneration of the members of the council of Nordecon International AS totalled 1,436 thousand kroons (92 thousand euros). The corresponding figure for 2008 was 1,443 thousand kroons (92 thousand euros).

### Conflict of interest

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

In 2009, Nordecon International AS complied with the CGR in respect of the activities of the council.

### Cooperation of the board and the council

The company's board and council cooperate in ensuring ongoing and effective information exchange. In the reporting period, members of the board participated in all quarterly council meetings that reviewed the company's performance. In addition, as a rule the chairman of the board was invited to other council meetings that examined matters related to the operation of the company. The board, in turn, has notified the council of any issues pertaining to deviations from the company's action plans or objectives.

In 2009, the board and the council cooperated actively in approving the Group's development plan and new strategic objectives for the period 2009-2013.

In 2009, Nordecon International AS complied with the CGR in respect of the cooperation of the board and the council.

## Disclosure of information

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

In disclosing information, the company observes the rules of the NASDAQ OMX Tallinn Stock Exchange and the provisions of the Estonian Securities Act. The company determined that in 2009 the threshold for notifying of significant construction contracts was 50 million kroons (3.2 million euros). In 2009 Nordecon International AS made 41 stock exchange announcements that were released concurrently in Estonian and in English via the information system of the NASDAQ OMX Tallinn Stock Exchange. In 2009 the supervisory authorities of the stock exchange did not notify the company of any shortcomings in the disclosure of information.

In April a member of the company's council made a transaction with the shares in Nordecon International AS during a period in which it was prohibited. The transgression occurred due to human error. Having become aware

of it, the member of the council forthwith notified the stock exchange authorities as well as the Estonian Financial Supervision Authority. The company was issued a letter of admonition for violation of the stock exchange rules.

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

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

In 2009, the company organised one press conference. At the extraordinary general meeting of the shareholders that was held on 26 March the company's business name was changed and its new development plan and strategic objectives for 2009-2013 were presented to the shareholders. In order to notify the public of the above changes, the company organised a press conference immediately after the general meeting.

Meetings with investors were held as and when requested by investors.

The presentations used at meetings with investors were published through the information system of the stock exchange and were also made available on the issuer's website. In 2009, the company did not publish the time schedule for meetings with investors and analysts on its website because it did not deem this important.

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

In 2009, Nordecon International AS complied with the information disclosure provisions of the CGR except for Article 5.6 that was complied with in part. However, the company is convinced that it has provided adequate alternatives and has therefore not violated the principle of equal treatment of shareholders in the disclosure of information.

## Financial reporting and auditing

### Financial reporting

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

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

In 2009, the company's council did not deem it necessary to invite the company's auditor to the meeting of the council that approved the annual report because the auditor issued an unqualified opinion on the financial statements.

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

The company has disclosed in the annual report financial information on companies that have not been consolidated but in which the company has a significant ownership interest (note 14) and transactions with shareholders (note 38).

### Auditing

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

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

In 2009, Nordecon International AS complied with the CGR in respect of financial reporting and auditing.

### Management's confirmation

The board confirms that *Management's discussion and analysis* presents fairly the development, financial performance and financial position of the company and the Group and provides an overview of the main risks and uncertainties.

Jaano Vink

Chairman of the Board



15 April 2010

Priit Tiru

Member of the Board



15 April 2010

## Consolidated financial statements

### Statement of management's responsibility

The board of Nordecon International AS acknowledges its responsibility for the preparation of the Group's consolidated financial statements as at and for the year ended 31 December 2009 and confirms that:

- the policies applied on the preparation of the consolidated financial statements comply with International Financial Reporting Standards as adopted by the European Union;
- the consolidated financial statements, which have been prepared in accordance with effective financial reporting standards, give a true and fair view of the assets and liabilities of the Group comprising of the Parent company and other consolidated Group entities as well as its financial position, its financial performance, and its cash flows;
- all significant events that occurred before the date on which the consolidated financial statements were authorised for issue (15 April 2010) have been properly recognised and disclosed; and
- Nordecon International AS and its subsidiaries are going concerns.

Jaano Vink

Chairman of the Board

15 April 2010

Priit Tiru

Chairman of the Board

15 April 2010

## Consolidated statement of financial position

	Note	31 Dec 2009	EEK'000 31 Dec 2008	31 Dec 2009	EUR'000 31 Dec 2008
<b>ASSETS</b>					
<b>Current assets</b>					
Cash and cash equivalents	8	225,191	296,184	14,392	18,930
Trade and other receivables	9	644,704	815,190	41,204	52,100
Prepayments	10	30,595	96,114	1,955	6,142
Income tax assets		0	3,207	0	205
Inventories	11	389,328	357,905	24,883	22,874
Non-current assets held for sale	12	4,617	0	295	0
<b>Total current assets</b>		<b>1,294,435</b>	<b>1,568,600</b>	<b>82,729</b>	<b>100,252</b>
<b>Non-current assets</b>					
Deferred tax assets	13	0	776	0	50
Investments in equity accounted investees	14	2,191	5,927	140	379
Other investments	16	414	751	26	48
Trade and other receivables	9	33,329	105,927	2,130	6,770
Investment property	17	87,975	116,783	5,623	7,464
Property, plant and equipment	18	204,115	263,295	13,045	16,828
Intangible assets	19	268,233	305,188	17,143	19,505
<b>Total non-current assets</b>		<b>596,257</b>	<b>798,647</b>	<b>38,107</b>	<b>51,043</b>
<b>TOTAL ASSETS</b>		<b>1,890,692</b>	<b>2,367,247</b>	<b>120,836</b>	<b>151,295</b>
<b>LIABILITIES</b>					
<b>Current liabilities</b>					
Loans and borrowings	20	262,959	235,948	16,806	15,080
Trade payables	22	377,925	570,318	24,154	36,450
Other payables	23	94,580	157,277	6,044	10,052
Deferred income	24	136,438	201,050	8,720	12,849
Provisions	25	10,364	11,600	662	741
<b>Total current liabilities</b>		<b>882,266</b>	<b>1,176,193</b>	<b>56,386</b>	<b>75,172</b>
<b>Non-current liabilities</b>					
Loans and borrowings	20	294,328	318,578	18,811	20,361
Trade payables	22	4,846	2,534	310	162
Other payables	23	1,500	0	96	0
Provisions	25	7,041	6,630	450	424
<b>Total non-current liabilities</b>		<b>307,715</b>	<b>327,742</b>	<b>19,667</b>	<b>20,947</b>
<b>TOTAL LIABILITIES</b>		<b>1,189,981</b>	<b>1,503,935</b>	<b>76,053</b>	<b>96,119</b>
<b>EQUITY</b>					
Share capital	26	307,567	307,567	19,657	19,657
Statutory capital reserve	26	40,012	34,800	2,557	2,224
Translation reserve	26	-3,201	-4,106	-205	-262
Retained earnings		345,280	426,995	22,067	27,290
<b>Total equity attributable to equity holders of the parent</b>		<b>689,658</b>	<b>765,256</b>	<b>44,077</b>	<b>48,909</b>
<b>Non-controlling interest</b>		<b>11,053</b>	<b>98,056</b>	<b>706</b>	<b>6,267</b>
<b>TOTAL EQUITY</b>		<b>700,711</b>	<b>863,312</b>	<b>44,783</b>	<b>55,176</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>1,890,692</b>	<b>2,367,247</b>	<b>120,836</b>	<b>151,295</b>

## Consolidated statement of comprehensive income

	Note	EEK'000		EUR'000	
		2009	2008	2009	2008
Revenue	28	2,418,880	3,867,917	154,594	247,205
Cost of sales	30	-2,282,575	-3,510,006	-145,883	-224,330
<b>Gross profit</b>		<b>136,305</b>	<b>357,911</b>	<b>8,711</b>	<b>22,875</b>
Distribution expenses		-9,416	-8,007	-602	-512
Administrative expenses	31	-125,206	-182,526	-8,002	-11,666
Other operating income	32	25,592	63,947	1,636	4,087
Other operating expenses	32	-154,014	-22,845	-9,843	-1,460
<b>Operating profit / loss</b>		<b>-126,739</b>	<b>208,480</b>	<b>-8,100</b>	<b>13,324</b>
Finance income	33	86,513	96,877	5,529	6,192
Finance expenses	33	-33,934	-68,019	-2,169	-4,347
<b>Net finance income</b>		<b>52,579</b>	<b>28,858</b>	<b>3,360</b>	<b>1,844</b>
Share of loss of equity accounted investees	14	-7,666	-24,753	-490	-1,582
<b>Profit / loss before income tax</b>		<b>-81,826</b>	<b>212,585</b>	<b>-5,230</b>	<b>13,587</b>
Income tax expense	34	-7,618	-41,269	-487	-2,638
<b>Profit / loss for the period</b>		<b>-89,444</b>	<b>171,316</b>	<b>-5,717</b>	<b>10,949</b>
<b>Other comprehensive income / expense:</b>					
Exchange differences on translating foreign operations		905	-6,371	58	-407
Total other comprehensive income / expense for the period		905	-6,371	58	-407
<b>TOTAL COMPREHENSIVE INCOME / EXPENSE FOR THE PERIOD</b>		<b>-88,539</b>	<b>164,945</b>	<b>-5,659</b>	<b>10,542</b>
<b>Profit / loss attributable to:</b>					
- Owners of the parent		-45,740	145,580	-2,923	9,304
- Non-controlling interests		-43,704	25,736	-2,794	1,645
<b>Profit / loss for the period</b>		<b>-89,444</b>	<b>171,316</b>	<b>-5,717</b>	<b>10,949</b>
<b>Total comprehensive income / expense attributable to:</b>					
- Owners of the parent		-44,835	139,120	-2,865	8,891
- Non-controlling interests		-43,704	25,825	-2,794	1,651
<b>Total comprehensive income / expense for the period</b>		<b>-88,539</b>	<b>164,945</b>	<b>-5,659</b>	<b>10,542</b>
<b>Earnings per share attributable to owners of the parent:</b>					
Basic earnings per share (EEK/EUR)	27	-1.49	4.73	-0.09	0.30
Diluted earnings per share (EEK/EUR)	27	-1.49	4.73	-0.09	0.30

## Consolidated statement of cash flows

	Note	2009	EET'000 2008	2009	EUR'000 2008
<b>Cash flows from operating activities</b>					
Cash receipts from customers <sup>1</sup>		3,337,467	4,693,418	213,303	299,964
Cash paid to suppliers <sup>2</sup>		-2,799,616	-3,809,442	-178,928	-243,468
Cash paid to and for employees		-427,098	-540,926	-27,296	-34,571
Income taxes paid		-10,858	-38,041	-694	-2,431
<b>Net cash from operating activities</b>		<b>99,895</b>	<b>305,009</b>	<b>6,385</b>	<b>19,494</b>
<b>Cash flows from investing activities</b>					
Acquisition of property, plant and equipment		-2,356	-11,856	-151	-758
Acquisition of intangible assets		-7,609	-929	-486	-59
Proceeds from sale of property, plant and equipment and intangible assets		6,328	11,989	404	766
Proceeds from sale of investment properties		11,078	0	708	0
Acquisition of subsidiaries, net of cash acquired	7	-6,614	-211,331	-423	-13,507
Proceeds from disposal of subsidiaries, net of cash	7	157	2,063	10	132
Acquisition of associates	14	-6,000	-7,615	-383	-487
Proceeds from disposal of associates	14	6,724	77,812	430	4,973
Acquisition of interests in joint ventures	14	-20,000	0	-1,278	0
Proceeds from sale of other investments	16	275	0	18	0
Loans granted		-80,828	-120,756	-5,166	-7,718
Repayment of loans granted		29,897	86,721	1,911	5,542
Interest received		14,907	17,079	953	1,092
Dividends received		61	183	4	12
<b>Net cash used in investing activities</b>		<b>-53,980</b>	<b>-156,640</b>	<b>-3,450</b>	<b>-10,011</b>
<b>Cash flows from financing activities</b>					
Proceeds from loans received		343,242	415,558	21,937	26,559
Repayment of loans received		-348,364	-309,607	-22,265	-19,787
Dividends paid	26, 34	-31,933	-104,130	-2,041	-6,655
Payment of finance lease liabilities	21	-51,029	-56,517	-3,261	-3,612
Interest paid		-28,284	-33,283	-1,808	-2,127
Other payments made		-487	-258	-31	-16
<b>Net cash used in financing activities</b>		<b>-116,855</b>	<b>-88,237</b>	<b>-7,469</b>	<b>-5,639</b>
<b>Net cash flow</b>		<b>-70,940</b>	<b>60,132</b>	<b>-4,534</b>	<b>3,843</b>
<b>Cash and cash equivalents at beginning of period</b>		<b>296,184</b>	<b>236,112</b>	<b>18,930</b>	<b>15,090</b>
Effect of exchange rate fluctuations		-53	-60	-3	-4
Decrease / increase in cash and cash equivalents		-70,940	60,132	-4,534	3,843
<b>Cash and cash equivalents at end of period</b>		<b>225,191</b>	<b>296,184</b>	<b>14,393</b>	<b>18,930</b>

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

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

## Consolidated statement of changes in equity

EEK'000	Equity attributable to equity holders of the parent					Non-controlling interest	Total
	Share capital	Statutory capital reserve	Translation reserve	Retained earnings	Total		
<b>At 31 December 2007</b>	<b>307,567</b>	<b>11,766</b>	<b>2,354</b>	<b>397,810</b>	<b>719,497</b>	<b>90,095</b>	<b>809,592</b>
Total comprehensive income for the period	0	0	-6,460	145,580	139,120	25,825	164,945
Dividends declared (note 26)	0	0	0	-92,270	-92,270	-11,860	-104,130
Transfer to capital reserve	0	23,034	0	-23,034	0	0	0
Changes in non-controlling interest	0	0	0	-1,091	-1,091	-6,004	-7,095
<b>At 31 December 2008</b>	<b>307,567</b>	<b>34,800</b>	<b>-4,106</b>	<b>426,995</b>	<b>765,256</b>	<b>98,056</b>	<b>863,312</b>
<b>At 31 December 2008</b>	<b>307,567</b>	<b>34,800</b>	<b>-4,106</b>	<b>426,995</b>	<b>765,256</b>	<b>98,056</b>	<b>863,312</b>
Total comprehensive expense for the period	0	0	905	-45,740	-44,835	-43,704	-88,539
Dividends declared (note 26)	0	0	0	-30,757	-30,757	-1,176	-31,933
Transfer to capital reserve	0	5,212	0	-5,212	0	0	0
Changes in non-controlling interest	0	0	0	-7	-7	-42,122	-42,130
<b>At 31 December 2009</b>	<b>307,567</b>	<b>40,012</b>	<b>-3,201</b>	<b>345,280</b>	<b>689,658</b>	<b>11,053</b>	<b>700,711</b>

EUR'000	Equity attributable to equity holders of the parent					Non-controlling interest	Total
	Share capital	Statutory capital reserve	Translation reserve	Retained earnings	Total		
<b>At 31 December 2007</b>	<b>19,657</b>	<b>752</b>	<b>150</b>	<b>25,425</b>	<b>45,984</b>	<b>5,758</b>	<b>51,742</b>
Total comprehensive income for the period	0	0	-413	9,304	8,891	1,651	10,542
Dividends declared (note 26)	0	0	0	-5,897	-5,897	-758	-6,655
Transfer to capital reserve	0	1,472	0	-1,472	0	0	0
Changes in non-controlling interest	0	0	0	-70	-70	-384	-454
<b>At 31 December 2008</b>	<b>19,657</b>	<b>2,224</b>	<b>-262</b>	<b>27,290</b>	<b>48,909</b>	<b>6,267</b>	<b>55,176</b>
<b>At 31 December 2008</b>	<b>19,657</b>	<b>2,224</b>	<b>-262</b>	<b>27,290</b>	<b>48,909</b>	<b>6,267</b>	<b>55,176</b>
Total comprehensive expense for the period	0	0	57	-2,923	-2,866	-2,794	-5,659
Dividends declared (note 26)	0	0	0	-1,966	-1,966	-75	-2,041
Transfer to capital reserve	0	333	0	-333	0	0	0
Changes in non-controlling interest	0	0	0	0	0	-2,693	-2,693
<b>At 31 December 2009</b>	<b>19,657</b>	<b>2,557</b>	<b>-205</b>	<b>22,067</b>	<b>44,077</b>	<b>706</b>	<b>44,783</b>



## NOTE 1. Reporting entity

Nordecon International AS (the "Company"; former name: AS Eesti Ehitus) is a company domiciled in Estonia. The address of the Company's registered office is Pärnu mnt 158/1, Tallinn 11317, Estonia. The Company's controlling shareholder is AS Nordic Contractors which holds 53.67% of the shares in Nordecon International AS. The shares of Nordecon International AS have been listed on the NASDAQ OMX Tallinn Stock Exchange since 18 May 2006.

The business name of AS Eesti Ehitus was changed by an extraordinary general meeting of the Company's shareholders on 26 March 2009. The extraordinary general meeting decided that the Company's new business name should be Nordecon International. Changes in the names of the main Group companies are disclosed in note 6. The former business name is referred to where necessary for legal reasons.

The consolidated financial statements of Nordecon International AS (also referred to as the "Parent") as at and for the year ended 31 December 2009 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interests in associates and jointly controlled entities. The Group's primary activities are buildings and infrastructure construction (including road construction and maintenance) and, within strategic limits, real estate development. In addition to Estonia, the Group operates through its subsidiaries and associates in Latvia (until February 2010), Lithuania and Ukraine.

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

### Statement of compliance

The consolidated financial statements of Nordecon International AS as at and for the year ended 31 December 2009 have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union.

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

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

These consolidated financial statements were authorised for issue by the board on 15 April 2010.

### Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except that financial assets at fair value through profit or loss, available-for-sale financial assets and investment properties have been measured at fair value. The methods used to measure fair values are discussed further in notes 5 and 35.

### Functional and presentation currency

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

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

## Use of estimates and judgements

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

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

In 2009, the global and national economies were impacted by the global financial crisis and the ensuing economic recession that hit most countries. For the Group's target markets (the Baltic countries and Ukraine), the consequences of the above events were more adverse than for the EU on average. As a result, management has had to make estimates and exercise judgement in an environment where reliable information on the market prices of certain assets is not available and uncertainty about the outlooks of the construction and real estate markets persists.

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

#### Recognition of construction contract revenue by reference to the stage of completion method (note 29)

When the outcome of a construction contract can be estimated reliably, contract revenue is recognised by reference to the stage of completion of the contract activity at the reporting date. The Group estimates the stage of completion of its construction contracts using precise and systematic cost accounting, forecasting, and revenue and expense recognition procedures. The estimated outcome of each construction contract is subject to ongoing control. The Group analyses any deviations from the budget and revises its estimate of the outcome whenever necessary.

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

In the reporting period, management has had to estimate the outcome (profit / loss) of active contracts (projects in progress) more frequently than in previous periods. Because in the construction market supply currently exceeds demand, management has had to estimate the profitability of active contracts at the reporting date and where the expected outcome has been a loss, then also the size of the loss. The amount of the loss that is recognised as an expense immediately and in full, as required by the Group's accounting policy, depends primarily on management's estimates of the behaviour of construction prices during the remaining term of the contract.

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

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

The Group is engaged in real estate development in Estonia and apartments that are built for sale are classified as inventories until that sale occurs. The Group has estimated the values of unsold apartments classified as inventories by reference to the sales prices of similar apartments sold near the reporting date. The estimates were made using the calculations of the Group's internal real estate specialists. Where the sales prices of similar apartments were lower than the carrying values of the Group's unsold apartments, the unsold apartments were written down to their net realisable values.

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

### Classification and measurement of investment properties (notes 5 and 17)

Both on initial recognition and subsequent reclassification, properties are classified to inventories, investment properties and items of property, plant and equipment on the basis of management's intentions regarding their further use. Investment properties comprise properties held to earn operating lease rentals or for capital appreciation or both.

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

The Group determines the fair values of its investment properties on the basis of valuation reports issued by certified independent real estate appraisers. Owing to the present situation of the real estate market in the regions where the Group's investment properties are located (Tartu, Pärnu and the island of Hiiumaa), appraisers have stated in their reports that the market values of the properties cannot be determined because there is no reliable information for applying the sales comparison method (the most suitable of the three under the circumstances) as required by the valuation standards. Accordingly, the Group had no basis for restating the carrying values of its investment properties as at the reporting date.

Management decided to write down one investment property whose contract of sale (contract under the law of obligations) was signed after the reporting date. Management is of the opinion that the contract could be applied as a basis for determining the value of the property because the initial price agreed in the negotiations that started in 2009 did not change.

### Provisions and contingent liabilities (notes 25 and 36)

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

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

### Determination of the useful lives of property, plant and equipment (note 18)

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

### Measurement of goodwill (note 19)

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

The projected cash flows, which include both working capital investments and capital expenditures, are discounted at the weighted average cost of the capital involved (debt and equity capital). The net operating cash flows of cash-generating units do not depend on the capital structure of the specific company. Therefore, in determining the discount rate, the proportions of debt and equity capital have been identified based on the industry's average ratios from the Damodaran database. The discount rates that were used for estimating the value in use of the Group's subsidiaries ranged from 9% to 11%.

The value in use of a cash-generating unit is compared to the carrying amount of the investment made plus the carrying amount of the goodwill allocated to it. Value in use is an estimate. Therefore, any changes in selected inputs may increase or reduce the value obtained. Management has performed a sensitivity analysis that indicates the impact of a change in discount rates on the recoverable amount of goodwill. The total value in use of the cash-generating units to which goodwill has been allocated will exceed the carrying amount of the investments and goodwill until the rise in the average discount rate does not exceed 4%, assuming all other variables remain constant.

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

### Changes in accounting policies

The preparation of the Group's financial statements was influenced by the following new and revised International Financial Reporting Standards effective for annual periods beginning on or after 1 January 2009:

- IAS 1 (revised) – *Presentation of Financial Statements*

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

The Group has decided to present a single statement of comprehensive income that combines the income statement and non-owner changes in equity. The change did not affect earnings per share in the periods presented in the financial statements.

- IFRS 8 – *Operating Segments*

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

The application of the Standard has increased the number of reportable segments. In place of the previously reported two segments (Buildings and Infrastructure) the Group now discloses segment information in respect of Buildings (European Union), Buildings (Ukraine), Infrastructure (European Union) and other segments.

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

The Group has presented information on its operating segments in the notes to the consolidated financial statements together with comparative data in accordance with the transitional provisions of the new Standard. Since the change constituted a change in presentation practice, it did not affect earnings per share in the periods presented in the financial statements.

The new approach does not change the principles of allocating goodwill to the Group's cash-generating units.

New and revised standards and interpretations effective for periods beginning on or after 1 January 2009 that had no impact on the preparation of the Group's financial statements:

IFRS 2 (amended) – *Share-based Payment*

IFRS 7 (revised) – *Financial Instruments: Disclosures*

IAS 23 (revised) – *Borrowing Costs*

IAS 27 (revised) – *Consolidated and Separate Financial Statements*

IAS 32 (amended) – *Financial Instruments: Presentation*

IAS 39 (amended) – *Financial Instruments: Recognition and Measurement*

IFRIC 13 – *Customer Loyalty Programmes*

IFRIC 16 – *Hedges of a Net Investment in a Foreign Operation*

## Changes in the presentation of financial statements

The Group has made changes in the presentation of the consolidated statement of financial position and consolidated statement of comprehensive income with a view to improving the legibility of the financial statements. The changes comprise reclassifications as well as aggregations and separations of items. Because the changes constituted changes in presentation, they did impact the Group's equity or the total amounts of the Group's assets and liabilities, profits presented in comprehensive income (e.g. operating profit) or earnings per share in the periods presented in the financial statements. As per management's view these changes in presentation are not material to the financial statements as a whole so that they would influence the decisions made using financial information. Pursuant from aforementioned, the changes in detail have not been disclosed in the annual report.

## New and standards and interpretations not yet adopted at 31 December 2009

A number of new standards, amendments to standards and interpretations have been issued but are not yet effective for the year ended 31 December 2009 and therefore have not been applied in preparing these consolidated financial statements. The list presented below is not complete but includes only those standards and interpretations that are likely to have an impact on the Group's consolidated financial statements or to be applied in the preparation of the Group's financial statements for subsequent periods.

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

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

- All items of consideration transferred by the acquirer are recognised and measured at fair value as of the acquisition date, including contingent consideration.
- Subsequent change in contingent consideration will be recognised in profit or loss.
- Transaction costs, other than share and debt issuance costs, will be expensed as incurred.
- The acquirer can elect to measure any non-controlling interest at fair value at the acquisition date (full goodwill), or at its proportionate interest in the fair value of the identifiable assets and liabilities of the acquiree, on a transaction-by-transaction basis.

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

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

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

The Group has adopted the term "non-controlling interest" in these financial statements but has not yet completed its analysis of the impact of the revised Standard on its financial statements.

- IFRIC 15 (revised) – *Agreements for the Construction of Real Estate* (effective for annual periods beginning on or after 1 January 2010)

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

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

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

The Group is of the opinion that the interpretation will not have a significant impact on the Group's financial statements because a similar accounting policy was applied already before the issuance of the Interpretation.

## NOTE 4. Significant accounting policies

### Basis of consolidation

#### Subsidiaries

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

#### Business combinations of independent entities

Business combinations between independent parties are accounted for by applying the purchase method whereby the cost of a business combination is allocated by recognising the acquiree's identifiable assets, liabilities and contingent liabilities (the "net assets") at their fair values at the acquisition date. Any difference between the cost of the business combination and the acquirer's interest in the fair value of the net assets so recognised is accounted for as goodwill. The acquiree's income and expenses are included in the Group's statement of comprehensive income and the goodwill acquired from the business combination is recognised in the Group's statement of financial position from the date of acquisition.

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

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

#### Business combinations of entities under common control

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

#### Associates and joint ventures

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

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

Investments in associates and jointly controlled entities are accounted for using the equity method (equity accounted investees) and are initially recognised at cost. The Group's investment includes goodwill identified on acquisition, net of any accumulated impairment losses. The consolidated financial statements include the Group's share of the income and expenses and equity movements of equity accounted investees, after adjustments to align the accounting policies with those of the Group, from the date the significant influence or joint control commences to the date the significant influence or joint control ceases. When the Group's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest is reduced to nil and the recognition of future losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

#### Jointly controlled operations

In accordance with IAS 31 *Interests in Joint Ventures*, jointly controlled operations are joint ventures which involve the use of the assets and other resources of the venturers rather than the establishment of a corporation, partnership or other entity, or a financial structure that is separate from the venturers themselves. Each venturer

uses its own property, plant and equipment and carries its own inventories. It also incurs its own expenses and liabilities and raises its own finance, which represents its own obligations. In respect of its interests in jointly controlled operations, a venturer recognises in its financial statements the assets that it controls and the liabilities that it incurs, and the expenses that it incurs and its share of the income that it earns from the sale of goods or services by the joint venture.

#### Transactions eliminated on consolidation

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

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

#### Consolidation of foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to Estonian kroons at exchange rates at the reporting date. The income and expenses of foreign operations are translated to Estonian kroons at exchange rates at the dates of the transactions or the average exchange rate for the reporting period when the exchange rate between the Estonian kroon and the foreign currency has been stable. Exchange differences on translating foreign operations are recognised directly in the other comprehensive income or loss. When a foreign operation is disposed of, in part or in full, the relevant amount in the foreign currency translation reserve is transferred to profit or loss.

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

	Date	Estonian kroon (EEK)	Latvian lats (LVL)	Lithuanian litas (LTL)	Ukrainian hryvna (UAH)
1 euro (EUR)	31 December 2009	15.6466	0.7096	3.4528	11.5920
1 euro (EUR)	31 December 2008	15.6466	0.7081	3.4528	11.1288

#### Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities using the exchange rates quoted by the central banks of their respective countries at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rates at that date. Foreign currency differences arising on retranslation are recognised in the statement of comprehensive income. Foreign exchange differences on trade receivables and trade payables are recognised in other operating income and other operating expenses. Foreign exchange differences on receivables and payables related to financing and investing activities are recognised on finance income and finance expenses.

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

#### Financial assets

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

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

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

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

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

#### **Financial assets at fair value through profit or loss**

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

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

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

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

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

#### **Loans and receivables**

Loans and receivables with fixed or determinable payments that have not been acquired for resale are measured at their amortised cost using the effective interest rate method. The carrying amounts of loans and receivables are adjusted for any impairment losses incurred.

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

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

Available-for-sale financial assets are non-derivative financial assets that are not cash and cash equivalents and have not been designated to any other category of financial assets. Subsequent to initial recognition, available-for-sale financial assets are measured at their fair value unless fair value cannot be measured reliably. When fair value cannot be measured reliably, the cost method is applied.

A gain or loss on a change in the value of an available-for-sale financial asset is recognised in other comprehensive income or expense. When the asset is derecognised or becomes impaired the cumulative gain or loss recognised in the fair value reserve is recognised in finance income or expense. When an available-for-sale financial asset becomes impaired, the amount of the cumulative gain or loss that is removed from the fair value reserve and recognised in finance expense is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that financial asset previously recognised in finance expenses.

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

#### **Cash and cash equivalents**

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

#### **Inventories**

Materials and goods purchased for resale (including properties acquired for development) are initially recognised at cost. The cost of materials and goods purchased for resale comprises all costs of purchase and other costs incurred in



bringing the inventories to their present location and condition. Building materials acquired for construction contracts are recognised as inventories (classified as materials) until their employment in the construction process.

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

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

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

In the statement of financial position, inventories are measured at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. Inventory write-downs to net realisable value are recognised in the statement of comprehensive income in the cost of sales in the period in which they are performed.

### Construction work in progress

The revenues and costs of a construction contract are matched and recognised by reference to the stage of completion of the contract activity at the reporting date. The stage of completion of a contract is determined as the proportion that contract costs incurred for work performed until the reporting date bear to the estimated total contract costs. Construction contract costs comprise costs that relate directly to a specific contract and costs that are attributable to contract activity in general and can be allocated to the contract.

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

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

### Investment property

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

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

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

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

If a property is transferred from property, plant and equipment to investment property, any positive difference at that date between the property's fair value and carrying amount is recognised in other comprehensive income as a change in the revaluation reserve and it will be subject to the revaluation accounting principles provided in IAS 16 *Property, Plant and Equipment*. Any negative difference is recognised in the statement of comprehensive income. Exceptions include buildings under construction on the reclassification of which both positive and negative differences are recognised in the statement of comprehensive income. When a property is transferred from inventories to investment property, any difference (both positive and negative) at that date between its fair value and carrying amount is recognised in the statement of comprehensive income.

## Property, plant and equipment

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

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

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

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

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

Asset class	Useful life in years
Buildings and structures	33
Plant and equipment	3-10
Vehicles	5-7
Other equipment, fixtures and fittings	3-5

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

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

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

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

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

## Goodwill

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

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill is allocated to the Group's cash-generating units or groups of cash-generating units that are expected to benefit from the synergies of the combination. A cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

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

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

### Research and development expenditures

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

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

Capitalised development expenditures are carried at cost less any accumulated amortisation and any accumulated impairment losses. Development expenditure is expensed on a straight-line basis over its estimated useful life that generally does not exceed five years.

### Other intangible assets

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

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

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

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

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

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

### Impairment of assets

#### Impairment of non-financial assets

The carrying amounts of the Group's non-financial assets, other than investment property, inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. An impairment loss is recognised if the carrying amount of an asset exceeds its recoverable amount. The recoverable amount of an asset or its cash-generating unit is the higher of its fair value less costs to sell and the present value of the future cash flows expected to be derived from the asset or cash-generating unit (value in use). Value in use is calculated by estimating the future cash flows expected to be derived from the asset and applying an appropriate pre-tax discount rate to those cash flows. The discount rate has to reflect current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (cash-generating unit). Where necessary, the fair value of an asset is determined with the assistance of independent experts. Impairment losses on assets including impairment losses on cash-generating units are recognised in the statement of comprehensive income. An impairment loss for a cash-generating unit is recognised by first reducing the carrying amount of any goodwill allocated to the cash-generating unit and then the carrying amounts of other assets of the unit on a pro rata basis.

The Group assesses at least at each reporting date whether there is any indication that an impairment loss recognised in prior periods no longer exists or may have decreased. If such indication exists, the impairment loss

recognised in prior periods is reversed. The increased carrying amount of an asset attributable to a reversal of an impairment loss cannot exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised in the statement of comprehensive income as a reduction of the expense in which the original impairment loss was recognised. As an exception, impairment losses for goodwill are not reversed.

#### **Impairment of financial assets**

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

The recoverable amount of a financial asset is the present value of its estimated future cash flows discounted at the asset's original effective interest rate. Impairment losses on financial assets related to operating activity (trade and other receivables) are recognised in operating expenses and impairment losses on financial assets related to investing activities are recognised in finance expenses.

Loans and receivables that are individually significant are assessed for impairment individually. If a receivable is 180 or more days overdue, it is considered impaired and expensed in full except for items whose recoverability is supported with additional agreements or if the debtor has provided collateral. If impairment of an asset becomes obvious sooner, an impairment loss is recognised earlier.

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

#### **Financial liabilities**

All financial liabilities (trade and other payables, loans, accrued expenses, debt securities issued and other short- and long-term borrowings) are recognised initially at their fair value. The fair value of a financial liability includes any transaction costs that are directly attributable to the acquisition or issue of the financial liability. After initial recognition, financial liabilities are measured at amortised cost using the effective interest method. Financial liabilities are recognised using trade date accounting, i.e. at the date they are incurred (e.g. at the date when the contract or agreement is signed).

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

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

#### **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 obligations are recognised at their present value by applying a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of a discount is recognised in finance expenses.

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

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

Promises, guarantees and other commitments that may transform into an obligation subject to the occurrence or non-occurrence of one or more uncertain future events not within the control of the Group are disclosed in the notes to the financial statements as contingent liabilities.

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

### Short-term employee benefits

Short-term employee benefits (wages and salaries payable and vacation pay liabilities) are measured on an undiscounted basis and are expensed as the related service is provided. Salary, wage and vacation pay liabilities are recognised on the basis of contracts signed with employees in accordance with the provisions of labour legislation that impose on the Group a legal obligation to make the payments.

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

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

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

### Leases

A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset to the lessee. Title may or may not be eventually transferred. An operating lease is a lease other than a finance lease.

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

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

Under operating leases, the leased assets are carried in the statement of financial position of the lessor. Operating lease payments received and made are recognised in income and expense respectively on a straight-line basis.

### Statutory capital reserve

In accordance with the Estonian Commercial Code, the statutory capital reserve has to amount to at least 10% of a company's share capital. Accordingly, every year the Parent company transfers at least 5% of net profit to the statutory capital reserve until the prescribed level is attained. The statutory capital reserve may not be distributed as dividends but it may be used for covering accumulated losses if the latter cannot be covered with unrestricted equity. In addition, the capital reserve may be used for increasing share capital by means of a bonus issue. The Group's capital reserve includes the subsidiaries' capital reserves that were established at the subsidiaries at the time when the Parent had control over them.

### Earnings per share

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

### Income tax

Income tax assets and liabilities and income tax expense and income comprise current and deferred items. Current tax (recoverable or payable) in respect of taxable profit or the distribution of dividends is recognised as a current

asset or liability and the associated income or expense is recognised in the statement of comprehensive income as it arises.

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

#### **Parent company and subsidiaries and joint ventures registered in Estonia**

Under the Estonian Income Tax Act, corporate income tax is not levied on profits earned but dividends distributed. Until 31 December 2009 the tax rate for net dividend distributions was 21/79. The tax rate will remain the same in 2010. The income tax payable on dividends is recognised as an expense in the period in which the dividends are declared.

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

#### **Latvian, Lithuanian and Ukrainian subsidiaries and joint ventures**

In Latvia, Lithuania and Ukraine corporate profits are subject to income tax. In Latvia the tax rate is 15%, in Lithuania 20% (2010: 15%) and in Ukraine 25%. Taxable income is calculated by adjusting profit before tax for permanent and temporary differences between the carrying amounts and tax bases of assets and liabilities as permitted by the local tax laws.

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

#### **Segment reporting**

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

#### **Revenue**

Revenue is measured at the fair value of the consideration received or receivable taking into account the amount of any trade discounts and volume rebates allowed. Revenue is recognised only to the extent that it is probable that economic benefits associated with the transaction will flow to the Group and the amount of the revenue can be measured reliably.

#### **Revenue from construction contracts**

Contract revenue and contract costs associated with a construction contract are recognised as revenue and expenses respectively by reference to the stage of completion method as soon as the outcome of the contract can be estimated reliably. Contract revenue comprises the initial amount of revenue agreed in the contract and variations in contract work and claims and incentive payments to the extent that it is probable that they will result in revenue and are capable of being reliably measured. The stage of completion of a contract is determined by reference to the proportion that contract costs incurred for work performed bear to the estimated total contract costs and surveys of work performed. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

#### **Revenue from the rendering of services**

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

#### **Revenue from the sale of goods**

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

Revenue from the sale of real estate (detached houses, apartments, office premises, etc completed through development operations) is recognised when the significant risks and rewards of ownership have been transferred to the buyer, it is probable that economic benefits associated with the transaction will flow to the Group, the costs incurred or to be incurred in respect of the transaction can be measured reliably, the Group retains no continuing involvement with the goods (and has no obligation to perform significant additional work), and the amount of the revenue can be measured reliably. As a rule, a sale is deemed to have taken place when the real right contract has been signed. Amounts received from customers before the conclusion of the contract are recognised as deferred income.

#### Finance income

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

#### Discontinued operations

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

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

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

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

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

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

## NOTE 5. Financial risk management

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

- Credit risk
- Liquidity risk
- Market risk

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

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

## Credit risk

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

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

Credit risk management involves both preventive activities (analysis of the creditworthiness of counterparties) and the limitation of the concentration and accumulation of risks. Group entities perform transactions only with those counterparties that have been considered creditworthy by management. In the case of customers with whom the Group has already been transacting business, credit risk is assessed mainly on the basis of the customer's previous settlement behaviour. In the case of high risk counterparties, services are rendered and goods are sold on a prepayment basis only.

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

When a credit loss is anticipated, the receivables and loans involved are written down. As a rule, write-downs are based on probable credit losses related to specific counterparties.

Further information on the Group's exposure to credit risk is disclosed in note 35.

## Liquidity risk

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

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

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

- an overdraft facility denominated in euros of 9,256 thousand kroons (592 thousand euros) that is renewable every six months and carries fixed annual interest at the rate of 3.822%;
- an overdraft facility denominated in euros of 78,233 thousand kroons (5,000 thousand euros) that will expire in autumn 2010 (renewable) and carries interest at a floating annual interest rate of 2% plus the bank's base interest rate.

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

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

## Market risk

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



Currency risk is exposure to losses arising from unfavourable changes in foreign exchange rates that may cause a decline in the value of the Group's financial instruments that are denominated in currencies other than the Group entities' functional currencies. The bulk of the Group's operations is conducted in Estonia and the financial instruments of the Group's Estonian entities are denominated in Estonian kroons (EEK) or in euros (EUR). For the exchange losses to occur, the present officially fixed exchange rate (EUR 1 = EEK 15.6466) should change and the value of the euro against the Estonian kroon should increase. In view of the Estonian currency board system and the fact that the country is in the final stages of joining the European Economic and Monetary Union at the present exchange rate that will result in the implementation of the euro in Estonia, realisation of the currency loss is considered unlikely.

The Ukrainian national currency the hryvna (UAH) floats against other currencies (including EUR and USD). The Group's currency risk exposure arises from financial instruments that are denominated in currencies other than the hryvna, for example USD or EUR-based loan and lease liabilities. In the reporting period as well as previous periods, the Group has attempted to mitigate its Ukrainian currency risk exposure by linking the payments receivable for a financial asset, where possible, to the EUR or USD exchange rate effective at the date of acquisition of the financial asset. In 2009, the Group reduced its operations in the Ukrainian market and therefore its associated currency risk exposure is insignificant. In 2009, foreign exchange losses from Ukrainian operations totalled 595 thousand kroons (38 thousand euros). At the reporting date, the Group's non-Ukrainian entities had no financial instruments denominated in UAH.

The currency risk of the Group's Latvian entities arises also from financial instruments denominated in euros. Although the Latvian national currency the lats (LVL) is pegged to the euro (at a floating rate within a corridor fixed by the central bank), the Group is of the opinion that a devaluation risk exists and, accordingly, the Group was exposed to currency risk at the reporting date. However, at present the potential realisation of the risk is insignificant for the Group because since the reporting date the Group has divested itself of all its Latvian entities.

At the reporting date, the Group had no currency risk exposures in Lithuania because the Group's Lithuanian operations have been suspended and the Lithuanian subsidiary does not have financial assets. At the reporting date, the Group's non-Lithuanian entities had no financial instruments denominated in Lithuanian litas (LTL).

Owing to the relative insignificance of the exposures, the Group has not implemented hedging instruments to counteract the currency risk. Further information on the Group's exposure to currency risk is disclosed in note 35.

Interest rate risk is the risk that a change in interest rates and / or settlement periods will have a significant impact on the Group's performance through growth in interest expense. The Group does not use hedging instruments to counteract the interest rate risk.

Receivables and liabilities with fixed and floating interest rates are presented in note 35.

### Country risk

In 2009, the Group earned 3% of its revenue in Ukraine and at 31 December 2009 the Ukrainian assets accounted for 9% of the Group's consolidated assets. In the light of the global economic crisis, the Ukrainian economic situation may be considered relatively weak both in the short- and medium-term perspective. The Group's management believes that the Group's financial instruments that are related to Ukraine carry a high risk and the probability that their value may decrease in the foreseeable future is above average (see note 35).

### Determination of fair value

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

### Financial instruments

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

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

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

- Financial liabilities – the fair value assessment for financial liabilities is based on the discounted present value of the future principal and interest payments. The discount rate applied is the average market interest rate at the reporting date.

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

### Investment property

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

- Discounted cash flow method – To calculate the value of a property's discounted cash flows, the appraiser forecasts the property's future rental income (including rental per square metre and the occupancy rate) and operating expenses. Depending on the terms of the existing lease (whether and how easily the lease can be terminated by the lessee), the appraiser will base the projections on either the property's existing cash flows or the market's current average cash flows for similar properties. The present value of the future net cash flow is found by applying a discount rate which best reflects the current market assessments of the time value of money and the risks specific to the asset. The discount rate is selected based on the market's average capital structure. The discounted cash flow method is used to determine the value of properties that generate stable rental income.
- Sales comparison method – Under this method, the market value of a property is determined by reference to the price per square metre agreed in transactions performed with similar properties under similar circumstances. This method is used to determine the value of properties that do not generate rental income but are held for development or capital appreciation. As the transactions selected for comparison are practically never identical with the property being valued, their prices are adjusted to reflect differences in time, location, size and detailed plan. Application of this method assumes that a sufficient number of arm's length transactions with similar properties have been or are being performed in the area in which the property is located around the time the valuation is performed (the comparable transactions have to have occurred no more than a year before the valuation).
- A contract under the law of obligations – The fair value of properties which at the reporting date have been sold by a contract under the law of obligations but whose real right contract has not yet been signed is determined based on the sales price of the property in the contract under the law of obligations. The method is used for determining the fair value of a property only when the Group has reasonable assurance that the related real right contract will be concluded under the same terms and conditions (e.g. the buyer has made a substantial prepayment by the reporting date or the real right contract is concluded after the reporting date but before the date management authorises the financial statements for issue). The method is used also when a contract under the law of obligations is signed after the reporting date but the terms of the transactions have been agreed before the end of the reporting period and they have not changed significantly until the date of the transaction.

At the beginning of 2009 the Group had two investment properties which in previous periods were measured using the discounted cash flow method (2008: write-down of 11,530 thousand kroons/737 thousand euros). In the reporting period, one of the properties was sold (see notes 17 and 32) and preparations for the sale of the other began before the reporting date. The Group decided to sell the latter property because its rental income had decreased significantly. The Group determined the fair value of the property by reference to the price agreed in the contract under the law of obligations and the real right contract that were signed after the reporting date, deeming it a more reliable fair value assessment than the estimate made using the discounted cash flow method. The terms of the transaction were agreed in the reporting period, they did not change before the signature of the contracts and there were no major changes in the environment of the regional real estate market. Based on the above, the Group wrote the investment property down to the sales price agreed in the real right contract. The write-down recognised as at the reporting date amounted to 12,460 thousand kroons (796 thousand euros). At the reporting date, the value of investment properties generating rental income was 8,000 thousand kroons (511 thousand euros).

The Group applies the sales comparison method to investment properties that do not generate rental income, that are not being developed (there is no detailed plan and/or no business plan) or actively marketed, and in respect of which the Group has not received any purchase bids. The Group has five such properties, three of which are located in Western Estonia near Pärnu (all are without detailed plans), one is located on the island of Hiiumaa and one is located in Tartu. The fair values of those properties were appraised by independent real estate appraisers that conducted their valuations by analysing the regional real estate markets in respect of comparable transactions. The Estonian real estate market (particularly the areas outside the capital Tallinn) have not recovered from the downturn triggered by the liquidity problems that emerged in 2007 and therefore the number of comparable transactions

suitable for conducting valuations is extremely small. Accordingly, the independent appraisers decided not to express an opinion on the value of the Group's investment properties that are measured using the sales comparison method. In their opinion, the information available in the market was so unreliable that it did not allow determining fair value as defined in the valuation and accounting standards.

The Group's management was of the opinion that owing to the condition and location of the properties, application of other valuation methods as at the reporting date would have been impracticable. On the other hand, management is convinced that in the long-term perspective the fair values of the above investment properties have not decreased below their carrying amounts. At 31 December 2009, the total carrying value of investment properties measured using the sales comparison method was 79,975 thousand kroons (5,111 thousand euros).

### Capital management

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

The Group's gearing ratio has risen 8 percentage points compared with 2008 and is above the 20% threshold fixed by the Group's management as appropriate for conservative capital management. Management is of the opinion that the rise in gearing has not had any impact on the Group's capital management policies or put meeting the requirements set by the banks at risk.

	2009	EEK'000 2008	2009	EUR'000 2008
Total interest-bearing liabilities	557,287	554,527	35,617	35,441
Cash and cash equivalents	-225,191	-296,184	-14,392	-18,930
Net interest-bearing liabilities	332,096	258,343	21,225	16,511
			0	
Total equity	700,711	863,312	44,783	55,176
Invested capital (interest-bearing liabilities + equity)	1,257,998	1,417,839	80,400	90,617
Gearing ratio <sup>1</sup>	26%	18%	26%	18%

<sup>1</sup> Gearing ratio = net interest-bearing liabilities / invested capital

### Minimum capital requirements

At the reporting date, the loan agreements signed with the banks required the Group to maintain the equity ratio (equity to equity and liabilities) at 25% or above (2009 actual: 37.1%; 2008: 36.5%).

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

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

### Dividend policy

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

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

## NOTE 6. Changes in the structure of Nordecon International Group

### Scope of consolidation

The consolidated financial statements of Nordecon International as at and for the year ended 31 December 2009 comprise 23 subsidiaries, 12 of them operating in Estonia, 5 in Ukraine, 4 in Latvia, 1 in Lithuania and 1 in Finland.

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

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 Signature/allkiri .....  
 KPMG, Tallinn

Subsidiary	Country of incorporation	Ownership interest 2009 (%)	Ownership interest 2008 (%)
Nordecon Infra AS (formerly AS Aspi)	Estonia	100	100
Nordecon Ehitus AS (formerly AS Linnaehitus)	Estonia	100	100
Nordecon Batoon OÜ (formerly OÜ Mapri Projekt)	Estonia	52.0	52.0
AS Eston Ehitus	Estonia	97.7	52.0
OÜ Eurocon	Estonia	64.0	64.0
Nordecon Infra SIA <sup>1</sup> (formerly Abagars SIA)	Latvia	56.0	56.0
TOV Eurocon Ukraine	Ukraine	64.0	64.0

<sup>1</sup> The interest in Nordecon Infra SIA was divested after the reporting date (see note 39).

In addition, the Group has subsidiaries in Lithuania and Finland - Nordecon Statyba UAB (2009 and 2008: interest 70%) and Estcon OY (2009 and 2008: interest 100%) respectively, but they are currently not engaged in active business operations.

At 31 December 2009, the Group had interests in 5 associates (2008: 6) and 1 joint venture (2008:0). Further information on equity accounted investees is presented in note 14.

## NOTE 7. Business combinations and transactions with non-controlling interests

### Business combinations

#### Acquisition of a stake in OÜ Kalda Kodu

On 9 January 2009, Nordecon International AS acquired a 56% stake in OÜ Kalda Kodu, a company domiciled in the Republic of Estonia, in order to gain control of a development project of OÜ Kalda Kodu located in Pärnu. The former controlling owner divested of its shareholding in OÜ Kalda Kodu but has a repurchase option effective until 2010 (inclusive). As per management, this realisation of this option is unlikely and the related liability immaterial. The existence of the option does not limit the Group's ability to control the activities of the subsidiary.

The remaining 44% of OÜ Kalda Kodu belongs to AS Eston Ehitus (at the reporting date the interest of the Group: 97.7%). Through its direct and indirect holdings, Nordecon International AS has a 98.9% interest in OÜ Kalda Kodu.

#### Net assets of OÜ Kalda Kodu at the date of acquisition:

	Pre-acquisition carrying amount	Total fair value (100%)	EEK'000 Recognised value on acquisition (56%)	Pre-acquisition carrying amount	Total fair value (100%)	EUR'000 Recognised value on acquisition (56%)
Current assets	54,168	54,168	30,334	3,462	3,462	1,939
Current liabilities	1,501	1,501	840	96	96	54
Non-current liabilities	52,629	52,629	29,472	3,364	3,364	1,884
<b>Total net assets</b>	<b>38</b>	<b>38</b>	<b>22</b>	<b>2</b>	<b>2</b>	<b>1</b>
Cost			0			0
Negative goodwill			-22			-1
Paid in cash			0			0

The business combination gave rise to negative goodwill of 22 thousand kroons (1 thousand euros), which has been recognised in finance income. In addition to the sale of the shares, the seller transferred to Nordecon International AS its loan and interest receivables from OÜ Kalda Kodu. The items were transferred gratis. As a result of this transaction, the Group recognised finance income of 7,916 thousand kroons (506 thousand euros); see also note 33.

#### Acquisition of a stake in SIA LCB

In January 2009, Nordecon Infra AS' Latvian subsidiary Nordecon Infra SIA (the Group's interest: 56%) completed the acquisition of a 75% stake in the Latvian company SIA LCB. The cost of the transaction was 23,250 thousand kroons (1,486 thousand euros).

**Net assets of SIA LCB at the date of acquisition:**

	Pre-acquisition carrying amount	Total fair value (100%)	EEK'000 Recognised value on acquisition (75%)	Pre-acquisition carrying amount	Total fair value (100%)	EUR'000 Recognised value on acquisition (75%)
Current assets	11,788	11,788	8,841	753	753	565
Non-current assets	5,725	5,725	4,293	366	366	274
Current liabilities	10,571	10,571	7,928	676	676	507
Non-current liabilities	3,764	3,764	2,823	241	241	180
<b>Total net assets</b>	<b>3,178</b>	<b>3,178</b>	<b>2,383</b>	<b>202</b>	<b>202</b>	<b>152</b>
Cost			23,250			1,486
Goodwill			20,867			1,334
Paid in cash			15,500			991
Payable at 31 December 2009			7,750			495

According to management's assessment, the goodwill acquired in the business combination consisted of intangible assets that could not be individually identified and separately recognised. The goodwill consisted mainly of the entity's market share, know-how, and the synergies that the Group expected to derive from applying its existing road construction experience in a new market. Information on the recoverable amount of the goodwill is presented in note 19.

At the reporting date, the amount still payable for the business combination was 7,750 thousand kroons (495 thousand euros). According to the agreement, the payment was to be made in 2010. However, after the reporting date the Group has divested itself of its interests in Nordecon Infra SIA and SIA LCB and has therefore no settlement obligation. See also note 39.

## Transactions with non-controlling interests

### Acquisition of an additional stake in OÜ DSN Ehitusmasinad

On 13 February 2009, OÜ Kaurits (the Group's interest: 66%) acquired the remaining 34% interest in OÜ DSN Ehitusmasinad, raising its interest in the entity to 100%. The payment made for the stake was 700 thousand kroons (45 thousand euros) and the transaction gave rise to goodwill of 55 thousand kroons (3 thousand euros). According to management's assessment, the goodwill consisted of intangible assets that could not be individually identified.

OÜ Kaurits and OÜ DSN Ehitusmasinad merged as of 1 October 2009. The purpose of the merger was to assemble similar operations into one company and thereby improve management and operating efficiency and cut operating expenses.

### Acquisition of an additional stake in AS Eston Ehitus

During the period 27 July to 3 August 2009, Nordecon International AS acquired from 13 individuals and one legal person an additional 45.7% stake in AS Eston Ehitus, raising its interest in the entity from 52% to 97.7%. The cost of the stake was 0 thousand kroons (0 thousand euros).

AS Eston Ehitus was facing the need to make additional investments, overcome the challenges of a tumbling construction market and recover receivables from major customers. By the date of the transaction, AS Eston Ehitus had filed a bankruptcy petition against customers whose unsettled accounts totalled approximately 25 million kroons (1.6 million euros). Therefore, the non-controlling shareholders decided to transfer their interests without additional compensation.

As a result of the transaction, the Group recognised in finance income negative goodwill of 45,056 thousand kroons (2,880 thousand euros). However, in view of the above issues the Group wrote down the goodwill it had recognised on the acquisition of a 52% controlling stake in AS Eston Ehitus in 2007. The write-down amounted to 43,776 thousand kroons (2,798 thousand euros) and was recognised in other operating expenses. Further information on the write-down of goodwill is presented in note 19.

## Amounts paid in cash on the acquisition of subsidiaries and non-controlling interests

The amount presented in the statement of cash flows in respect of the acquisition of subsidiaries and non-controlling interests comprises the following items:

	EEK'000		EUR'000		Year of acquisition
	Paid in 2009	Paid in 2008	Paid in 2009	Paid in 2008	
SIA LCB <sup>1</sup>	-7,788	-7,974	-498	-510	2009
OÜ Kalda Kodu	0	0	0	0	2009
OÜ DSN Ehitusmasinad	-700	0	-45	0	2009
AS Eston Ehitus	0	-187,235	0	-11,966	2007, 2009
OÜ Kaurits	0	-12,000	0	-767	2006, 2008
TOV Eurocon Ukraine	0	-735	0	-47	2008
OÜ Eurocon	0	-7,443	0	-476	2008
<b>Total cash outflow</b>	<b>-8,488</b>	<b>-215,387</b>	<b>-543</b>	<b>-13,766</b>	
Cash inflow on acquisition	1,874	4,056	120	259	
<b>Net cash flow</b>	<b>-6,614</b>	<b>-211,331</b>	<b>-423</b>	<b>-13,507</b>	

<sup>1</sup> In 2008, a prepayment of 7,974 thousand kroons (510 thousand euros) was made for the acquisition of a stake in SIA LCB. The prepayment included transaction costs of 178 thousand kroons (11 thousand euros). The business combination took place in 2009, when an additional payment was made (see note 7, Acquisition of a stake in SIA LCB).

## Disposal of subsidiaries

### Disposal of the investment in EA Reng Proekt TOV

In June 2009, Nordecon International AS' Ukrainian subsidiary Eurocon Ukraine TOV (Group's interest: 64%) signed an agreement by which it divested of its entire stake in EA Reng Proekt TOV, a building design services company incorporated in Ukraine.

At the date of the transaction, the share capital of EA Reng Proekt TOV was 162 thousand hryvnas (approximately 237 thousand kroons / 15 thousand euros); the stake of Eurocon Ukraine TOV was 51%. The shares were sold to co-shareholders. The transaction gave rise to a gain of 737 thousand kroons (47 thousand euros) that was recognised in finance income (see also note 33). The net cash flow recognised for the transaction in the reporting period was 157 thousand kroons (10 thousand euros).

## NOTE 8. Cash and cash equivalents

	EEK'000		EUR'000	
	31 Dec 2009	31 Dec 2008	31 Dec 2009	31 Dec 2008
Current accounts	225,191	166,184	14,392	10,621
Term deposits with a short maturity	0	130,000	0	8,309
<b>Total cash and cash equivalents</b>	<b>225,191</b>	<b>296,184</b>	<b>14,392</b>	<b>18,930</b>

The amounts in current accounts are placed in overnight deposits. In the reporting period, the interest rates of the Group's overnight deposits were 5.35-5.80% per year. By the year-end, the interest rates had decreased to 1.05-1.45% per year. The decrease in interest rates results from the decline in the risk margin of the Estonian kroon.

The Group's exposure to the interest rate risk and a sensitivity analysis of the Group's financial assets and financial liabilities are presented in note 35.

## NOTE 9. Trade and other receivables

Current portion	Note	EEK'000		EUR'000	
		31 Dec 2009	31 Dec 2008	31 Dec 2009	31 Dec 2008
Trade receivables		338,767	473,935	21,651	30,290
Retentions receivable	29	36,884	27,897	2,357	1,783
Receivables from related parties	38	47,268	76,550	3,021	4,892
Loans to related parties	38	137,034	11,247	8,758	718
Loans to legal persons (including interest receivable)		40,241	40,853	2,572	2,611
Miscellaneous receivables		8,963	8,378	573	535
<b>Total receivables and loans granted</b>					
Due from customers for contract work	29	35,547	176,330	2,272	11,270
<b>Total trade and other receivables</b>		<b>644,704</b>	<b>815,190</b>	<b>41,204</b>	<b>52,100</b>

Non-current portion	Note	EEK'000		EUR'000	
		31 Dec 2009	31 Dec 2008	31 Dec 2009	31 Dec 2008
Trade receivables		0	206	0	13
Retentions receivable		1,046	0	67	0
Receivables from related parties	38	967	0	62	0
Loans to related parties	38	28,765	105,015	1,838	6,712
Miscellaneous receivables		2,551	706	163	45
<b>Total trade and other receivables</b>		<b>33,329</b>	<b>105,927</b>	<b>2,130</b>	<b>6,770</b>

Trade receivables are presented net of impairment allowances which at the reporting date totalled -11,262 thousand kroons/-720 thousand euros (31 December 2008: -8,111 thousand kroons/-518 thousand euros). Changes in the balance of doubtful receivables are presented in note 35; expenses from the write-down of receivables are presented in note 32.

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

Loans to non-Group legal persons (including interest) total 40,241 thousand kroons (2,572 thousand euros) including principal payments receivable of 35,754 thousand kroons (2,285 thousand euros)(31 December 2008: principal payments of 37,778 thousand kroons/2,414 thousand euros).

### Write-down of assets

In the reporting period, the Group wrote down amounts due from customers for contract work recognised using the stage of completion method by 8,467 thousand kroons (541 thousand euros). See also note 32.

In the reporting period, the Group wrote down loans granted to legal persons by 16,100 thousand kroons (1,029 thousand euros). See also note 32.

## Principal payments receivable under loans granted to legal persons

							2009
EEK´000	Base	Interest	Less than	1 to 2	3-...	Total	Maturity date
Loan type	currency	rate	1 year	years	years		
Development loan	EEK	15%	15,677	-	-	15,677	2010
Development loan	EEK	15%	9,857	-	-	9,857	2010
Development loan	EEK	15%	10,220	-	-	10,220	2010
<b>Total loans</b>			<b>35,754</b>	-	-	<b>35,754</b>	

							2009
EUR´000	Base	Interest	Less than	1 to 2	3-...	Total	Maturity date
Loan type	currency	rate	1 year	years	years		
Development loan	EEK	15%	1,002	-	-	1,002	2010
Development loan	EEK	15%	630	-	-	630	2010
Development loan	EEK	15%	653	-	-	653	2010
<b>Total loans</b>			<b>2,285</b>	-	-	<b>2,285</b>	<b>2 285</b>

							2008
EEK´000	Base	Interest	Less than	1 to 2	3-...	Total	Maturity date
Loan type	currency	rate	1 year	years	years		
Development loan <sup>1</sup>	EEK	15%	17,701	-	-	17,701	2009
Development loan <sup>1</sup>	EEK	15%	9,857	-	-	9,857	2009
Development loan <sup>1</sup>	EEK	15%	10,220	-	-	10,220	2009
<b>Total loans</b>			<b>37,778</b>	-	-	<b>37,778</b>	

							2008
EUR´000	Base	Interest	Less than	1 to 2	3-...	Total	Maturity date
Loan type	currency	rate	1 year	years	years		
Development loan <sup>1</sup>	EEK	15%	1,131	-	-	1,131	2009
Development loan <sup>1</sup>	EEK	15%	630	-	-	630	2009
Development loan <sup>1</sup>	EEK	15%	653	-	-	653	2009
<b>Total loans</b>			<b>2,414</b>	-	-	<b>2,414</b>	

<sup>1</sup> The settlement terms of loans that were to be repaid in 2009 have been extended until the end of 2010.

The Group's credit and currency risk exposures related to receivables are disclosed in note 35.

## NOTE 10. Prepayments

	31 Dec 2009	EEK´000 31 Dec 2008	31 Dec 2009	EUR´000 31 Dec 2008
Prepayments to suppliers	13,713	47,304	876	3,023
Prepaid taxes	9,087	29,727	581	1,900
Prepaid expenses	7,737	10,050	494	642
Other prepayments	0	7,796	0	498
Accrued income	58	1,237	4	79
<b>Total prepayments</b>	<b>30,595</b>	<b>96,114</b>	<b>1,955</b>	<b>6,142</b>

Prepayments to suppliers comprise of prepayments for services of 7,591 thousand kroons (485 thousand euros) and prepayments for building materials of 6,122 thousand kroons (391 thousand euros). The corresponding figures for 2008 were 18,476 thousand kroons (1,181 thousand euros) and 28,828 thousand kroons (1,842 thousand euros).

At 31 December 2008, other prepayments comprised of a prepayment of 7,796 thousand kroons (498 thousand euros) made for acquiring a stake in the Latvian subsidiary SIA LCB. For further information, please refer to note 7.



## NOTE 11. Inventories

	EEK'000		EUR'000	
	31 Dec 2009	31 Dec 2008	31 Dec 2009	31 Dec 2008
Raw and other materials	48,365	46,069	3,091	2,944
Work in progress	63,573	51,717	4,063	3,305
Finished goods	83,539	133,621	5,339	8,540
Real estate held for resale	193,851	126,498	12,390	8,085
<b>Total inventories</b>	<b>389,328</b>	<b>357,905</b>	<b>24,883</b>	<b>22,874</b>

Raw and other materials comprise materials acquired for construction projects and road maintenance. In 2009 the Group wrote raw and other materials down by 580 thousand kroons (37 thousand euros). The write-down has been recognised in the cost of sales.

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

	EEK'000		EUR'000	
	31 Dec 2009	31 Dec 2008	31 Dec 2009	31 Dec 2008
Costs related to apartment buildings and development projects not yet started	27,250	22,466	1,742	1,436
Other construction projects	36,323	29,251	2,321	1,869
<b>Total</b>	<b>63,573</b>	<b>51,717</b>	<b>4,063</b>	<b>3,305</b>

Finished goods comprise the construction costs of apartments completed but not yet sold. The decrease in finished goods is attributable to the sale of apartments. Due to a decline in the sales prices of apartments during the reporting period, the Group wrote finished goods down by 21,893 thousand kroons (1,399 thousand euros). The write-down has been recognised in the cost of sales in the statement of comprehensive income.

At the reporting date, the value of properties (plots) acquired for resale totalled 193,851 thousand kroons (12,389 thousand euros) (31 December 2008: 126,498 thousand kroons/8,085 thousand euros). The Group has not started active development operations on the properties. All post-acquisition expenditures incurred in making preparations for development operations that qualify for capitalisation have been recognised in work in progress.

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

	EEK'000		EUR'000	
	31 Dec 2009	31 Dec 2008	31 Dec 2009	31 Dec 2008
Non-current assets held for sale	4,617	0	295	0
<b>Total non-current assets held for sale</b>	<b>4,617</b>	<b>0</b>	<b>295</b>	<b>0</b>

Non-current assets held for sale include heated construction site shelters that have been offered for sale. The Group has decided to sell the shelters because the demand for construction services has decreased. Non-current assets held for sale are carried at their net book values as of the date they were reclassified.

## NOTE 13. Deferred tax assets

Deferred tax assets are attributable to the following items in the statement of financial position:

	EEK'000		EUR'000	
	31 Dec 2009	31 Dec 2008	31 Dec 2009	31 Dec 2008
Trade and other receivables	0	776	0	50
<b>Total deferred tax assets</b>	<b>0</b>	<b>776</b>	<b>0</b>	<b>50</b>

The Group wrote the deferred tax assets down because it is unlikely that they could be offset against the Group's income tax liabilities in the next financial year.

**Changes in temporary differences during the period:**

Trade and other receivables	EEK'000	EUR '000
<b>Balance at 31 December 2007</b>	<b>1,905</b>	<b>122</b>
Recognised as income tax expense	-1,129	-72
<b>Balance at 31 December 2008</b>	<b>776</b>	<b>50</b>
Recognised as income tax expense	-776	-50
<b>Balance at 31 December 2009</b>	<b>0</b>	<b>0</b>

**NOTE 14. Investments in equity accounted investees**

The Group accounts for investments in associates and joint ventures under the equity method.

	EEK'000		EUR'000	
	31 Dec 2009	31 Dec 2008	31 Dec 2009	31 Dec 2008
Investments in equity accounted investees	2,191	5,927	140	379
<b>Total investments in equity accounted investees</b>	<b>2,191</b>	<b>5,927</b>	<b>140</b>	<b>379</b>

**General information on equity accounted investees:**

Company and type of investment		Domicile	Group's interest		Business activity
			31 Dec 2009	31 Dec 2008	
TOV Technopolis-2	Associate	Ukraine	32%	32%	Real estate development
TOV V.I. Center	Associate	Ukraine	28%	28%	Real estate development
OÜ Kastani Kinnisvara	Associate	Estonia	26%	26%	Real estate development
OÜ Sepavara	Associate	Estonia	49%	27%	Real estate development
OÜ Crislivinca	Associate	Estonia	33%	18%	Real estate development
OÜ Kalda Kodu	Associate	Estonia	0%	23%	Real estate development
OÜ Unigate	Joint venture	Estonia	50%	0	Real estate development

The Group's interest in OÜ Sepavara and OÜ Crislivinca has increased because the Group increased its interest in the subsidiary AS Eston Ehitus (see note 7). OÜ Kalda Kodu became a subsidiary of the Group in 2009 (see note 7).

**Financial information on equity accounted investees and the carrying values of the investments:**

Company	31 Dec 2009				2009		31 Dec 2009
	Assets	Liabilities	Equity	Revenue	Profit/loss	Value of investment in the Group's accounts	
TOV Technopolis-2	6,458	21,812	-15,355	38	-3,988	0	
TOV V.I. Center	153,495	224,101	-70,606	315	-14,404	0	
OÜ Kastani Kinnisvara	24,892	30,550	-5,658	2,296	-6,001	0	
OÜ Sepavara	6,661	6,610	51	0	-21	25	
OÜ Crislivinca	83,689	20,938	341	961	-15,474	613	
OÜ Unigate	49,681	47,738	1,943	0	-25	1,553	
<b>Total</b>	<b>324,876</b>	<b>351,749</b>	<b>-89,284</b>	<b>3,610</b>	<b>-39,913</b>	<b>2,191</b>	

Company	31 Dec 2009				2009		31 Dec 2009
	Assets	Liabilities	Equity	Revenue	Profit/loss	Value of investment in the Group's accounts	
TOV Technopolis-2	413	1,394	-981	2	-255	0	
TOV V.I. Center	9,810	14,323	-4,513	20	-921	0	
OÜ Kastani Kinnisvara	1,591	1,953	-362	147	-383	0	
OÜ Sepavara	426	422	3	0	-1	2	
OÜ Crislivinca	5,349	1,338	22	61	-989	39	
OÜ Unigate	3,175	3,051	124	0	-2	99	
<b>Total</b>	<b>20,764</b>	<b>22,481</b>	<b>-5,707</b>	<b>230</b>	<b>-2,551</b>	<b>140</b>	

The carrying amounts of OÜ Unigate and OÜ Crislivinca include goodwill of 582 thousand kroons (37 thousand euros) and 497 thousand kroons (32 thousand euros) respectively. As the value in use based on discounted estimated cash flows of the companies was higher than their carrying value, in 2009, the goodwill was not written down.

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

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

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

EEK'000	2009			2008		
	Recognised /recorded in			Recognised /recorded in		
	Profit / loss	Statement of comprehensive income	Off the statement of financial position	Profit / loss	Statement of comprehensive income	Off the statement of financial position
TOV Technopolis-2	-1,994	0	-1,994	-6,365	-6,162	-203
TOV V.I. Center	-6,338	0	-6,338	-36,859	-7,759	-29,100
TOV Passage Theatre	0	0	0	-5,945	-5,945	0
OÜ Kastani Kinnisvara	-3,000	-2,392	-608	-4,314	-3,633	-681
OÜ DSN Ehitusmasinad	0	0	0	17	17	0
OÜ Sepavara	-11	-11	0	-8	-8	0
OÜ Kalda Kodu	0	0	0	-10	-10	0
OÜ Crislivinca	-5,260	-5,260	-0	-1,253	-1,253	0
OÜ Unigate	-13	-3	-10	0	0	0
<b>Total</b>	<b>-16,616</b>	<b>-7,666</b>	<b>-8,950</b>	<b>-54,737</b>	<b>-24,753</b>	<b>-29,984</b>

EUR'000	2009			2008		
	Recognised /recorded in			Recognised /recorded in		
	Profit / loss	Statement of comprehensive income	Off the statement of financial position	Profit / loss	Statement of comprehensive income	Off the statement of financial position
TOV Technopolis-2	-127	0	-127	-407	-394	-13
TOV V.I. Center	-405	0	-405	-2,356	-496	-1,860
TOV Passage Theatre	0	0	0	-380	-380	0
OÜ Kastani Kinnisvara	-192	-153	-39	-276	-232	-44
OÜ DSN Ehitusmasinad	0	0	0	1	1	0
OÜ Sepavara	-1	-1	0	-1	-1	0
OÜ Kalda Kodu	0	0	0	-1	-1	0
OÜ Crislivinca	-336	-336	0	-80	-80	0
OÜ Unigate	-1	0	-1	0	0	0
<b>Total</b>	<b>-1,062</b>	<b>-490</b>	<b>-572</b>	<b>-3,498</b>	<b>-1,582</b>	<b>-1,916</b>

As at 31 December 2008, the Group had established a provision of 3,421 thousand kroons (219 thousand euros) because it had a legal obligation to participate in restoring the equity of OÜ Kastani Kinnisvara to the level required by the law in proportion to its interest in the entity. The provision was used during the reporting period (see note 25). After additional contributions made by the shareholders at the beginning of 2009 (12,000 thousand kroons/767 thousand euros), the equity of OÜ Kastani Kinnisvara is negative at 5,658 thousand kroons (362 thousand euros) ( the figure includes the operating result for 2009). As at the reporting date, the Group has not made a provision for restoring the equity of OÜ Kastani Kinnisvara. During the reporting period the Group wrote down its receivables from the associate to the extent that allows the Group to make its proportionate contribution for restoring the equity of the entity to the level required by the law. Further information on write-downs is presented in note 39.

As a non-controlling shareholder, the Group has no binding obligation to restore the negative equity of any other entity. Therefore, no such provisions have been made as at the reporting date.

## Acquisition of interests in joint ventures

### Acquisition of a stake in OÜ Unigate

On 26 March 2009, the Group's subsidiary Nordecon Ehitus AS (the Group's interest: 100%) acquired a 50% stake in OÜ Unigate. According to the articles of association of OÜ Unigate, the council and board of the entity consist of the representatives of two venturers that hold a 50% interest each and decisions are made by consensus. Accordingly, the entity is a joint venture. The stake was acquired from AS Arealis that is a subsidiary of the Group's controlling shareholder Nordic Contractors AS.

In accordance with the terms of the agreement, AS Arealis was paid 20,000 thousand kroons (1,278 thousand euros). The cost of the stake acquired was 1,556 thousand kroons (100 thousand euros). The cost is not final. A variable price component that depends on the result of development operations will be settled in subsequent years when development operations have started. The Group has not recognised a liability for the variable price component because at the date the transaction was performed and at the reporting date the value of the variable component could not be measured reliably. Goodwill on the transaction, which has been recognised as part of the cost of the investment, amounted to 582 thousand kroons (37 thousand euros). According to management's assessment, the goodwill acquired in the business combination consists of intangible assets that can not be individually identified and separately recognised.

For the remaining 18,444 thousand kroons (1,179 thousand euros) the Group acquired AS Arealis' loan and interest receivables from OÜ Unigate (see note 38).

## Transactions with investments in associates

### Increase of interest in OÜ Kastani Kinnisvara

During the reporting period the shareholders of OÜ Kastani Kinnisvara increased the entity's share capital by issuing two new shares with a par value of 1000 kroons (64 euros) each. Shareholders agreed to pay for the shares with share premium of 5,999 thousand kroons (383 thousand euros) per share. The Group that previously owned 50% of the entity's shares thus made an additional cash contribution of 6,000 thousand kroons (383 thousand euros).

### Divestment of the investment in TOV Passage Theatre

In 2008 the Group sold a stake in the associate TOV Passage Theatre after which the Group's interest in the entity decreased to 2%. The cash payment for the transaction of 6,724 thousand kroons (430 thousand euros) was received in the reporting period.

## NOTE 15. Participation in jointly controlled operations

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

In 2009 the Group participated in jointly controlled operations under the following partnership contracts:

Name of jointly controlled operation	Group's interest	Total value of contract	
		EEK'000	EUR'000
Construction of the Koidula railway border station	62%	279,760	17,880
Construction of the Ahtme peak load boiler plant	50%	134,000	8,564

## NOTE 16. Other long-term investments

	EEK'000		EUR'000	
	31 Dec 2009	31 Dec 2008	31 Dec 2009	31 Dec 2008
Other long-term investments	414	751	26	48
<b>Total other long-term investments</b>	<b>414</b>	<b>751</b>	<b>26</b>	<b>48</b>

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

In 2009 the Group sold its remaining stake in TOV Passage Theatre (see note 14) whose carrying amount was 337 thousand kroons (22 thousand euros). The transaction generated gain of 777 thousand kroons (49 thousand euros) that was recognised in finance income. In the reporting period, the Group received 275 thousand kroons (18 thousand euros) of the price.

## NOTE 17. Investment property

	Note	EEK'000		EUR'000	
		2009	2008	2009	2008
<b>Investment property at 1 January</b>		<b>116,783</b>	<b>133,984</b>	<b>7,464</b>	<b>8,563</b>
Transfer to property, plant and equipment		0	-5,671	0	-362
Acquisitions		0	0	0	0
Sales		-16,348	0	-1,045	0
Re-measurement to fair value	32	-12,460	-11,530	-796	-737
<b>Investment property at 31 December</b>		<b>87,975</b>	<b>116,783</b>	<b>5,623</b>	<b>7,464</b>

In the reporting period, the Group sold one investment property that generated rental income. Due to a decline in the prices of commercial properties and shrinkage in rental income, the sales price of the property was smaller than the fair value of the investment property at the beginning of the reporting period. The transaction resulted in a loss of 7,823 thousand kroons (500 thousand euros), which has been recognised in other operating expenses.

The Group re-measured its investment properties to fair value as at the reporting date and based on the re-measurement, wrote investment properties down by 12,460 thousand kroons (796 thousand euros). The Group wrote down an investment property generating rental income because at the reporting date the Group had reliable information on the sales price of the property in the next financial year. The fair values of investment properties determined using the sales comparison method could not be measured reliably at the reporting date (see note 5).

In 2009, rental income on investment properties totalled 2,612 thousand kroons (167 thousand euros) and property management expenses amounted to 1,978 thousand kroons (126 thousand euros). In 2008, rental income amounted to 3,503 thousand kroons (224 thousand euros) and property management expenses totalled 1,724 thousand kroons (110 thousand euros).

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

## NOTE 18. Property, plant and equipment

EEK'000	Land and buildings	Plant and equipment	Other items of PP&E	Assets under construction	Total
<b>Cost</b>					
<b>At 31 December 2007</b>	<b>15,959</b>	<b>305,280</b>	<b>45,010</b>	<b>2,091</b>	<b>368,340</b>
Acquisitions through business combinations	800	20,663	2,262	12,713	36,438
Additions	14,354	67,907	10,813	-12,976	80,098
Transfers from investment property	5,671	0	0	0	5,671
Disposals	0	-26,516	-1,386	0	-27,902
Reclassification	0	-393	393	0	0
Effect of movements in exchange rates	0	-275	-30	0	-305
<b>At 31 December 2008</b>	<b>36,784</b>	<b>366,666</b>	<b>57,061</b>	<b>1,828</b>	<b>462,339</b>
Acquisitions through business combinations	0	2,233	219	0	2,452
Additions	0	2,725	4,380	386	7,491
Disposals	-721	-10,417	-7,024	0	-18,162
Reclassification	0	-2,097	2,097	0	0
Effect of movements in exchange rates	0	-304	-76	0	-380

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<b>At 31 December 2009</b>	<b>36,063</b>	<b>358,806</b>	<b>56,657</b>	<b>2,214</b>	<b>453,740</b>
<b>Depreciation</b>					
<b>At 31 December 2007</b>	<b>1,396</b>	<b>125,907</b>	<b>19,289</b>	<b>0</b>	<b>146,592</b>
Depreciation for the year	891	58,404	11,109	0	70,404
Disposals	0	-16,453	-1,525	0	-17,978
Reclassification	-10	-309	309	0	-10
Effect of movements in exchange rates	0	31	6	0	37
<b>At 31 December 2008</b>	<b>2,277</b>	<b>167,580</b>	<b>29,188</b>	<b>0</b>	<b>199,045</b>
Depreciation for the year	1,257	53,642	11,101	0	66,000
Disposals	0	-9,362	-5,897	0	-15,259
Effect of movements in exchange rates	0	-101	-60	0	-161
<b>At 31 December 2009</b>	<b>3,534</b>	<b>211,759</b>	<b>34,332</b>	<b>0</b>	<b>249,625</b>
<b>Carrying amount</b>					
<b>At 31 December 2007</b>	<b>14,563</b>	<b>179,373</b>	<b>25,721</b>	<b>2,091</b>	<b>221,748</b>
<b>At 31 December 2008</b>	<b>34,507</b>	<b>199,086</b>	<b>27,874</b>	<b>1,828</b>	<b>263,295</b>
<b>At 31 December 2009</b>	<b>32,529</b>	<b>147,047</b>	<b>22,325</b>	<b>2,214</b>	<b>204,115</b>

<b>EUR'000</b>	<b>Land and buildings</b>	<b>Plant and equipment</b>	<b>Other items of PP&amp;E</b>	<b>Assets under construction</b>	<b>Total</b>
<b>Cost</b>					
<b>At 31 December 2007</b>	<b>1,020</b>	<b>19,511</b>	<b>2,877</b>	<b>134</b>	<b>23,541</b>
Acquisitions through business combinations	51	1,321	145	813	2,329
Additions	917	4,340	691	-829	5,119
Transfers from investment property	362	0	0	0	362
Disposals	0	-1,695	-89	0	-1,783
Reclassification	0	-25	25	0	0
Effect of movements in exchange rates	0	-18	-2	0	-19
<b>At 31 December 2008</b>	<b>2,351</b>	<b>23,434</b>	<b>3,647</b>	<b>117</b>	<b>29,549</b>
Acquisitions through business combinations	0	143	14	0	157
Additions	0	174	280	25	479
Disposals	-46	-666	-449	0	-1,161
Reclassification	0	-134	134	0	0
Effect of movements in exchange rates	0	-19	-5	0	-24
<b>At 31 December 2009</b>	<b>2,305</b>	<b>22,931</b>	<b>3,621</b>	<b>142</b>	<b>28,999</b>
<b>Depreciation</b>					
<b>At 31 December 2007</b>	<b>89</b>	<b>8,047</b>	<b>1,233</b>	<b>0</b>	<b>9,369</b>
Depreciation for the year	57	3,733	710	0	4,500
Disposals	0	-1,052	-97	0	-1,149
Reclassification	-1	-20	20	0	-1
Effect of movements in exchange rates	0	2	0	0	2
<b>At 31 December 2008</b>	<b>145</b>	<b>10,710</b>	<b>1,865</b>	<b>0</b>	<b>12,721</b>
Depreciation for the year	80	3,428	709	0	4,217
Disposals	0	-598	-377	0	-975
Effect of movements in exchange rates	0	-6	-4	0	-10
<b>At 31 December 2009</b>	<b>226</b>	<b>13,534</b>	<b>2,194</b>	<b>0</b>	<b>15,954</b>
<b>Carrying amount</b>					
<b>At 31 December 2007</b>	<b>931</b>	<b>11,464</b>	<b>1,644</b>	<b>134</b>	<b>14,172</b>
<b>At 31 December 2008</b>	<b>2,205</b>	<b>12,724</b>	<b>1,781</b>	<b>117</b>	<b>16,828</b>
<b>At 31 December 2009</b>	<b>2,079</b>	<b>9,398</b>	<b>1,427</b>	<b>142</b>	<b>13,045</b>

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

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

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

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

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

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

In 2009, the Group entered into new finance lease contracts of 13,017 thousand kroons (832 thousand euro) (2008: 76,674 thousand kroons / 4,900 thousand euros).

## NOTE 19. Intangible assets

EEK'000	Note	Goodwill	Software licences	Trademarks	Development costs	Total
<b>Cost</b>						
<b>At 31 December 2007</b>		<b>262,316</b>	<b>1,360</b>	<b>10,000</b>	<b>3,716</b>	<b>277,392</b>
Acquisitions through business combinations		10,983	220	0	0	11,203
Acquisition of non-controlling interests		22,120	0	0	0	22,120
Other additions		0	122	0	929	1,051
Effect of movements in exchange rates		-115	-1	0	0	-116
<b>At 31 December 2008</b>		<b>295,304</b>	<b>1,702</b>	<b>10,000</b>	<b>4,645</b>	<b>311,651</b>
Acquisitions through business combinations	7	20,922	623	0	0	21,545
Other additions		0	274	7,500	414	8,188
Disposals		0	-502	-4,000	0	-4,502
Write-down of goodwill	32	-61,206	0	0	0	-61,206
Effect of movements in exchange rates		-76	-10	0	0	-86
<b>At 31 December 2009</b>		<b>254,944</b>	<b>2,087</b>	<b>13,500</b>	<b>5,059</b>	<b>275,590</b>
<b>Amortisation</b>						
<b>At 31 December 2007</b>		<b>0</b>	<b>669</b>	<b>3,500</b>	<b>0</b>	<b>4,169</b>
Amortisation for the year		0	287	2,000	0	2,287
Effect of movements in exchange rates		0	7	0	0	7
<b>At 31 December 2008</b>		<b>0</b>	<b>963</b>	<b>5,500</b>	<b>0</b>	<b>6,463</b>
Acquisitions through business combinations		0	103	0	0	103
Amortisation for the year		0	466	3,375	0	3,841
Disposals		0	-50	-3,000	0	-3,050
<b>At 31 December 2009</b>		<b>0</b>	<b>1,482</b>	<b>5,875</b>	<b>0</b>	<b>7,357</b>
<b>Carrying amount</b>						
<b>At 31 December 2007</b>		<b>262,316</b>	<b>691</b>	<b>6,500</b>	<b>3,716</b>	<b>273,223</b>
<b>At 31 December 2008</b>		<b>295,304</b>	<b>739</b>	<b>4,500</b>	<b>4,645</b>	<b>305,188</b>
<b>At 31 December 2009</b>		<b>254,944</b>	<b>605</b>	<b>7,625</b>	<b>5,059</b>	<b>268,233</b>

EUR'000	Note	Goodwill	Software licences	Trademarks	Development costs	Total
<b>Cost</b>						
<b>At 31 December 2007</b>		<b>16,765</b>	<b>87</b>	<b>639</b>	<b>237</b>	<b>17,729</b>
Acquisitions through business combinations		702	14	0	0	716
Acquisition of non-controlling interests		1,414	0	0	0	1,414
Other additions		0	8	0	59	67
Effect of movements in exchange rates		-7	0	0	0	-7
<b>At 31 December 2008</b>		<b>18,873</b>	<b>109</b>	<b>639</b>	<b>297</b>	<b>19,918</b>
Acquisitions through business combinations	7	1,337	40	0	0	1,377
Other additions		0	18	479	26	523
Disposals		0	-32	-256	0	-288
Write-down of goodwill	19	-3,912	0	0	0	-3,912
Effect of movements in exchange rates		-4	-1	0	0	-5
<b>At 31 December 2009</b>		<b>16,294</b>	<b>133</b>	<b>863</b>	<b>323</b>	<b>17,613</b>

## Amortisation

<b>At 31 December 2007</b>	<b>0</b>	<b>43</b>	<b>224</b>	<b>0</b>	<b>266</b>
Amortisation for the year	0	18	128	0	146
Effect of movements in exchange rates	0	1	0	0	0
<b>At 31 December 2008</b>	<b>0</b>	<b>62</b>	<b>352</b>	<b>0</b>	<b>413</b>
Acquisitions through business combinations	0	7	0	0	7
Amortisation for the year	0	30	216	0	245
Disposals	0	-3	-192	0	-195
<b>At 31 December 2009</b>	<b>0</b>	<b>95</b>	<b>375</b>	<b>0</b>	<b>470</b>
<b>Carrying amount</b>					
<b>At 31 December 2007</b>	<b>16,765</b>	<b>44</b>	<b>415</b>	<b>237</b>	<b>17,462</b>
<b>At 31 December 2008</b>	<b>18,873</b>	<b>47</b>	<b>288</b>	<b>297</b>	<b>19,505</b>
<b>At 31 December 2009</b>	<b>16,294</b>	<b>39</b>	<b>487</b>	<b>323</b>	<b>17,143</b>

Capitalised development costs result from preparations made for the extraction of sand deposits from the seabed. The preparations will continue in 2010.

In 2009, the Group wrote off those trademarks that will not be used after the Group's name change. At the date of write-off, the total carrying amount of the trademarks was 1,000 thousand kroons (64 thousand euros).

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

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

## Impairment testing for cash-generating units containing goodwill

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

The carrying amounts of goodwill allocated to the subsidiaries are as follows:

Company	Interest	EEK'000		EUR'000	
		31 Dec 2009	31 Dec 2008	31 Dec 2009	31 Dec 2008
<b>Subsidiaries of Nordecon International AS</b>					
Nordecon Infra AS	100%	43,135	43,135	2,757	2,757
Nordecon Ehitus AS	100%	85,255	85,255	5,449	5,449
Eurocon OÜ	63%	6,655	6,655	425	425
Nordecon Infra SIA	56%	1,710	10,868	109	695
<b>Subsidiaries of Nordecon Infra AS</b>					
Nordecon Betoon OÜ	52%	2,831	2,831	181	181
OÜ Kaurits	66%	31,636	31,636	2,022	2,022
OÜ DSN Ehitusmasinad <sup>1</sup>	44%	0	8,289	0	530
<b>Subsidiaries of Nordecon Ehitus AS</b>					
AS Eston Ehitus	52%	62,859	106,635	4,017	6,815
<b>Subsidiaries of SIA Nordecon Infra</b>					
SIA LCB	75%	20,863	0	1,333	0
<b>Total</b>		<b>254,944</b>	<b>295,304</b>	<b>16,293</b>	<b>18,873</b>

<sup>1</sup> OÜ DSN Ehitusmasinad merged with its parent OÜ Kaurits in 2009.

## General assumptions for determining value in use

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

- The forecast period was three years (2010-2012) plus the terminal year.
- The present value of the future cash flows was found using the average weighted cost of capital (WACC) as the discount rate. The proportions of debt and equity capital used as weights were based on the average market value capital structures of similar companies, which according to the Damodaran database are 46% and 54% respectively. The cost of debt was estimated based on the company's actual loan interest rates of 4-6% and the expected rate of return on equity was set at 15%. See note 2 for sensitivity test of discount rate.



- Changes in subsequent periods' revenues were projected on the basis of the action plans of the company (cash-generating unit) for subsequent periods (including the budget approved by management for 2010) and an assessment of the market situation in the segment where the company operates.
- Changes in subsequent periods' gross margins were projected on the basis of the action plans of the company (cash-generating unit) for subsequent periods (including the budget approved by management for 2010) and an assessment of the market situation in the segment where the company operates.
- Administrative expenses that affect operating cash flow were projected on the basis of the budget approved by management for 2010 according to which at least the level achieved in 2009 after cost-cutting is to be maintained although at some companies administrative expenses may decrease even further. From 2011 administrative expenses are expected to start increasing.
- Changes in working capital investments were projected based on the expected revenue change against the comparative period. The absolute revenue change was used to estimate the portion (5%) that is expected to be needed for raising additional working capital upon revenue growth or to be released upon revenue decline.
- Changes in capital expenditures were projected on the basis of the investment budget approved by management for 2010 and by applying to it in subsequent periods suitable growth rates estimated by reference to the company's future activities.

**Nordecon Infra AS****Assumptions applied**

Forecast period	2010-2012 + terminal year
Discount rate	10%
Revenue change	2010: 0%, 2011-2012: 5% growth per year on average, 1% in the terminal year
Gross margin	Based on the budget for 2010, in 2011-2012 decline 1-2 percentage points, in the terminal year growth 1 percentage point
Administrative expenses	See general assumptions, in 2010-2012 approx. 4% of revenue, in the terminal year 5%
Working capital	See general assumptions
Capital expenditures	See general assumptions

**Nordecon Ehitus AS****Assumptions applied**

Forecast period	2010-2012 + terminal year
Discount rate	10%
Revenue change	2010: -30%, 2011-2012: 12.5% growth per year on average, 1% in the terminal year
Gross margin	Based on the budget for 2010, in 2011-2012 growth up to 1 percentage point, in the terminal year growth 1 percentage point
Administrative expenses	See general assumptions, in 2010-2012 approx. 4% of revenue, in the terminal year 4%
Working capital	See general assumptions
Capital expenditures	See general assumptions

**OÜ Eurocon****Assumptions applied**

Forecast period	2010-2012 + terminal year
Discount rate	11%
Revenue change	2010: 70%, 2011-2012: 4% growth per year on average, 1% in the terminal year
Gross margin	Based on the budget for 2010, in 2011-2012 growth 1-2 percentage points, in the terminal year growth 1 percentage point
Administrative expenses	See general assumptions, in 2010-2012 approx. 3% of revenue, in the terminal year 3%
Working capital	See general assumptions
Capital expenditures	See general assumptions

**Nordecon Infra SIA****Assumptions applied**

Forecast period	2010-2012 + terminal year
Discount rate	11%
Revenue change	2010: -70%, 2011-2012: 5% growth per year on average, 1% in the terminal year
Gross margin	Based on the budget for 2010, in 2011-2012 growth up to 1 percentage point, in the terminal year growth 1 percentage point
Administrative expenses	See general assumptions, in 2010-2012 approx. 5% of revenue, in the terminal year 5%
Working capital	See general assumptions
Capital expenditures	See general assumptions

Nordecon Infra SIA was mainly engaged in the construction of water and sewerage networks in Latvia. The profitability of the business decreased significantly owing to adverse changes in the external environment. Based on impairment testing and identification of the recoverable amount of the cash-generating unit, goodwill was written down by 9,141 thousand kroons (584 thousand euros): the goodwill acquired on the acquisition of Nordecon Infra

SIA was written down by 985 thousand kroons (63 thousand euros) and the goodwill acquired on the acquisition of Nordecon Infra SIA's subsidiary SIA Vides Tikli was written down by 8,156 thousand kroons (521 thousand euros).

**Nordecon Betoon OÜ Assumptions applied**

Forecast period	2010-2012 + terminal year
Discount rate	10%
Revenue change	2010: -10%, 2011-2012: 5% growth per year on average, 1% in the terminal year
Gross margin	Based on the budget for 2010, in 2011-2012 growth up to 1 percentage point, in the terminal year growth 1 percentage point
Administrative expenses	See general assumptions, in 2010-2012 approx. 5% of revenue, in the terminal year 5%
Working capital	See general assumptions
Capital expenditures	See general assumptions

**OÜ Kaurits Assumptions applied**

Forecast period	2010-2012 + terminal year
Discount rate	10%
Revenue change	2010: -7%, 2011-2012: 4% growth per year on average, 1% in the terminal year
Gross margin	Based on the budget for 2010, in 2011-2012 the company will operate with negative or zero gross profit mostly on account of depreciation which for the purpose of cash flow forecasting is a non-cash expense
Administrative expenses	See general assumptions, in 2010-2012 approx. 5% of revenue, in the terminal year 5%
Working capital	See general assumptions
Capital expenditures	See general assumptions

In 2009, OÜ Kaurits and its wholly owned subsidiary OÜ DSN Ehitusmasinad merged. Before the merger the goodwill attributable to OÜ DSN Ehitusmasinad amounted to 8,289 thousand kroons (530 thousand euros). The recoverable amount of the cash-generating unit OÜ DSN Ehitusmasinad was tested for impairment immediately before the merger. Based on the results of impairment testing, the goodwill was written down in full. The need for the write-down resulted from a decrease in the operating cash flows of the cash-generating unit.

**AS Eston Ehitus Assumptions applied**

Forecast period	2010-2012 + terminal year
Discount rate	11%
Revenue change	2010: subcontracting for the parent Nordecon Ehitus AS – expected revenue growth at least 30%; 2011-2012: 12.5% growth per year on average, 1% in the terminal year
Gross margin	Based on the budget for 2010, in 2011-2012 growth up to 1-2 percentage points, in the terminal year growth 1 percentage point
Administrative expenses	See general assumptions, in 2010-2012 approx. 4% of revenue, in the terminal year 4%
Working capital	See general assumptions
Capital expenditures	See general assumptions

In connection with a decline in the demand for construction services and a decrease in profitability, the recoverable amount of the cash-generating unit AS Eston Ehitus (a company previously targeting the private sector) had decreased below its carrying amount which contained goodwill of 106,635 thousand kroons (6,815 thousand euros). As a result, the goodwill acquired on the acquisition of AS Eston Ehitus was written down as at the reporting date by 43,776 thousand kroons (2,798 thousand euros).

**SIA LCB Assumptions applied**

Forecast period	2010-2012 + terminal year
Discount rate	11%
Revenue change	2010: 30%, 2011-2012: 5% growth per year on average, 1% in the terminal year
Gross margin	Based on the budget for 2010, in 2011-2012 growth up to 1-2 percentage points, in the terminal year growth 1 percentage point
Administrative expenses	See general assumptions, in 2010-2012 approx. 3% of revenue, in the terminal year 3%
Working capital	See general assumptions
Capital expenditures	See general assumptions

In the statement of comprehensive income, impairment losses on goodwill have been recognised in other operating expenses. Total impairment losses recognised for goodwill in the statement of comprehensive income and recorded in segment reporting:

Cash-generating unit containing goodwill	Segment	EEK`000	EUR`000
Eston Ehitus AS	Buildings, EU	43,776	2,798
DSN Ehitusmasinad OÜ	Other EU	8,289	530
Nordecon Infra SIA	Infrastructure EU	9,141	584
<b>Total</b>		<b>61,206</b>	<b>3,912</b>

In 2008, the recoverable amounts of cash-generating units exceeded the carrying amounts of investments made and no impairment losses were recognised.

## NOTE 20. Loans and borrowings

### Short-term loans and borrowings:

	Note	EEK'000		EUR'000	
		31 Dec 2009	31 Dec 2008	31 Dec 2009	31 Dec 2008
Overdraft liability		123,832	7,823	7,914	500
Current portion of long-term loans and borrowings of which					
Bank loans		114,653	192,631	7,328	12,311
Finance lease liabilities	21	42,434	46,860	2,712	2,995
Short-term bank loans		24,474	35,494	1,564	2,268
<b>Total short-term loans and borrowings</b>		<b>262,959</b>	<b>235,948</b>	<b>16,806</b>	<b>15,080</b>

### Long-term loans and borrowings:

	Note	EEK'000		EUR'000	
		31 Dec 2009	31 Dec 2008	31 Dec 2009	31 Dec 2008
Total long-term loans and borrowings of which:		408,981	511,209	26,139	32,672
Current portion		114,653	192,631	7,328	12,311
<b>Non-current portion of long-term loans and borrowings of which:</b>		<b>294,328</b>	<b>318,578</b>	<b>18,811</b>	<b>20,361</b>
Bank loans		214,093	220,156	13,683	14,071
Finance lease liabilities	21	64,836	98,422	4,144	6,290
Other long-term loans		15,399	0	984	0

### Details of loans as at 31 December 2009:

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

<sup>1</sup> The overdraft has been refinanced for the next 6 months at an annual interest rate of 3.5%+6m EURIBOR.

<sup>2</sup> The loans are related to the Group's Latvian subsidiary Nordecon Infra SIA and its subsidiaries. The Group sold its interest in the Latvian subsidiary before the loan matured (see note 39).

<sup>3</sup> The short-term investment loan was repaid at the decision of the Group early (on 1 February 2010).

<sup>4</sup> The investment loan was repaid at the decision of the Group early (on 12 March 2010).

EUR'000 Loan type	Base currency	Interest rate	Up to 1 year	1-2 years	3-... years	Total loan	Due date
Overdraft <sup>1</sup>	EUR	2.5% + 6m EURIBOR	5,060	0	0	5,060	15 Jan 2010
Overdraft	EUR	3.82%	1,454	0	0	1,454	30 Apr 2010
Overdraft <sup>2</sup>	EUR	2.9% + 3m EURIBOR	1,401	0	0	1,401	26 Mar 2010
Investment loan	EUR	1.5% + 6m EURIBOR	1,710	3,419	3,846	8,975	11 Jan 2013
Investment loan	EUR	4.1%	1,346	2,862	0	4,208	31 Jul 2012
Investment loan	EUR	5.873%	1,255	1,129	0	2,384	23 Apr 2011
Investment loan	EUR	1.2% + 6m EURIBOR	0	1,850	0	1,850	8 Nov 2011
Investment loan <sup>3</sup>	EUR	4.25%	628	0	0	628	10 Jun 2010
Investment loan	EUR	6.19%	45	387	0	432	18 Sept 2017
Investment loan <sup>4</sup>	EUR	0.7%+6m EURIBOR	141	0	0	141	21 Apr 2010
Investment loan <sup>2</sup>	EUR	1.5%+3m EURIBOR	69	98	0	167	30 Apr 2012
Investment loan <sup>2</sup>	EUR	1.5%+3m EURIBOR	34	58	0	92	30 Jul 2012
Investment loan <sup>2</sup>	EUR	1.5%+3m EURIBOR	16	34	0	50	30 Nov 2012
Working capital loan	EEK	5%	0	0	984	984	1 Aug 2014
Working capital loan <sup>2</sup>	EUR	10%	380	0	0	380	31 May 2010
Working capital loan	EUR	6.75%	236	0	0	236	25 Sept 2010
Working capital loan <sup>2</sup>	EUR	10%	20	0	0	20	30 Dec 2009
Working capital loan <sup>2</sup>	LVL	10%	20	0	0	20	30 Dec 2009
Stock financing	EUR	5.98%	280	0	0	280	15 Apr 2010
<b>Total loans</b>			<b>14,094</b>	<b>9,837</b>	<b>4,830</b>	<b>28,761</b>	

<sup>1</sup> The overdraft has been refinanced for the next 6 months at an annual interest rate of 3.5%+6m EURIBOR.

<sup>2</sup> The loans are related to the Group's Latvian subsidiary Nordecon Infra SIA and its subsidiaries. The Group sold its interest in the Latvian subsidiary before the loan matured (see note 39).

<sup>3</sup> The short-term investment loan was repaid at the decision of the Group early (on 1 February 2010).

<sup>4</sup> The investment loan was repaid at the decision of the Group early (on 12 March 2010).

#### Details of loans as at 31 December 2008:

EEK'000 Loan type	Base currency	Interest rate	Up to 1 year	1-2 years	3-... years	Total loan	Due date
Overdraft <sup>1</sup>	EUR	5.24% 1.5%+3m	7,823	0	0	7,823	31 Jan 2009
Overdraft <sup>1</sup>	EUR	EURIBOR	9,225	0	0	9,225	26 Mar 2009
Investment loan	EUR	4.1%	20,220	21,060	44,780	86,060	31 Jul 2012
Investment loan	EUR	6.15%	26,748	26,748	113,678	167,174	11 Jan 2013
Investment loan <sup>1</sup>	EUR	5.873%	84,686	0	0	84,686	21 Mar 2009
Investment loan	EUR	0.7%+6m EURIBOR	6,600	2,200	0	8,800	21 Apr 2010
Investment loan	EUR	1.5%+3m EURIBOR	1,024	872	1,744	3,640	30 Apr 2012
Investment loan	EUR	1.5%+3m EURIBOR	504	481	963	1,948	30 Jul 2012
Investment loan	EUR	1.5%+3m EURIBOR	237	259	518	1,014	30 Nov 2012
Investment loan	EUR	0.7%+6m EURIBOR	5,086	0	0	5,086	19 May 2009
Investment loan	EUR	6.19%	666	857	5,996	7,519	18 Sept 2017
Working capital loan	EUR	5.25%	15,004	0	0	15,004	30 Jun 2009
Working capital loan	EUR	2.2%+6m EURIBOR	0	0	0	0	18 Feb 2009
Working capital loan <sup>1</sup>	EUR	6.3%	3,947	0	0	3,947	18 Sept 2009
Stock financing <sup>1</sup>	EUR	5.79%	7,318	0	0	7,318	15 Jan 2009
<b>Total loans</b>			<b>189,088</b>	<b>52,477</b>	<b>167,679</b>	<b>409,244</b>	

<sup>1</sup> The term of the commitment was extended in 2009 based on contract terms or a refinancing decision.

EUR'000 Loan type	Base currency	Interest rate	Up to 1 year	1-2 years	3-... years	Total loan	Due date
Overdraft <sup>1</sup>	EUR	5.24%	500	0	0	500	31 Jan 2009
		1.5%+3m					
Overdraft <sup>1</sup>	EUR	EURIBOR	590	0	0	590	26 Mar 2009
Investment loan	EUR	4.1%	1,292	1,346	2,862	5,500	31 Jul 2012
Investment loan	EUR	6.15%	1,710	1,710	7,265	10,684	11 Jan 2013
Investment loan <sup>1</sup>	EUR	5.873%	5,412	0	0	5,412	21 Mar 2009
		0.7%+6m					
Investment loan	EUR	EURIBOR	422	141	0	562	21 Apr 2010
		1.5%+3m					
Investment loan	EUR	EURIBOR	65	56	111	233	30 Apr 2012
		1.5%+3m					
Investment loan	EUR	EURIBOR	32	31	62	124	30 Jul 2012
		1.5%+3m					
Investment loan	EUR	EURIBOR	15	17	33	65	30 Nov 2012
		0.7%+6m					
Investment loan	EUR	EURIBOR	325	0	0	325	19 May 2009
Investment loan	EUR	6.19%	43	55	383	481	18 Sept 2017
Working capital loan	EUR	5.24%	959	0	0	959	30 Jun 2009
		2.2%+6m					
Working capital loan	EUR	EURIBOR	0	0	0	0	18 Feb 2009
Working capital loan <sup>1</sup>	EUR	6.3%	252	0	0	252	18 Sept 2009
Stock financing <sup>1</sup>	EUR	5.79%	468	0	0	468	15 Jan 2009
<b>Total loans</b>			<b>12,085</b>	<b>3,354</b>	<b>10,717</b>	<b>26,155</b>	

<sup>1</sup> The term of the commitment was extended in 2009 based on contract terms or a refinancing decision

## NOTE 21. Finance and operating leases

	Note	2009	EEK'000 2008	2009	EUR'000 2008
Finance lease liability at beginning of year		145,282	125,390	9,285	8,014
addition		13,017	76,674	832	4,900
Principal payments made during the year		51,029	56,782	3,261	3,629
Finance lease liability at end of year of which		107,270	145,282	6,857	9,285
Payable in less than 1 year	20	42,434	46,860	2,712	2,995
Payable between 1 and 5 years	20	64,836	98,422	4,145	6,290
Base currency	EUR	105,513	142,841	6,744	9,129
Base currency	UAH	1,757	2,441	112	156
Interest rate for EUR based contracts <sup>1</sup>		3.5%-7.5%	3.5%-7.5%	3.5%-7.5%	3.5%-7.5%
Interest rate for UAH based contracts		17%-19%	10%-12%	17%-19%	10%-12%
Interest expense of the period		4,555	8,906	291	569
Settlement frequency		Monthly	Monthly	Monthly	Monthly

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

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

EEK'000	2009	2008
Payable in	Minimum lease rentals <sup>1</sup>	Present value of minimum lease rentals
	2009	Present value of minimum lease rentals
Less than 1 year	46,749	42,434
Between 1 and 5 years	69,710	64,836
<b>Total</b>	<b>116,459</b>	<b>107,270</b>
		<b>164,113</b>
		<b>145,282</b>

EUR'000	2009		2008	
	Minimum lease rentals <sup>1</sup>	Present value of minimum lease rentals	Minimum lease rentals <sup>1</sup>	Present value of minimum lease rentals
<b>Payable in</b>				
Less than 1 year	2,988	2,712	3,485	2,995
Between 1 and 5 years	4,455	4,145	7,004	6,290
<b>Total</b>	<b>7,443</b>	<b>6,857</b>	<b>10,489</b>	<b>9,285</b>

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

## Operating lease expenses

### Operating lease expenses recognised under effective contracts:

Operating lease expenses recognised for	EEK'000		EUR'000	
	2009	2008	2009	2008
Cars	27,066	16,824	1,730	1,075
Construction equipment	36,631	37,742	2,341	2,412
Premises	9,783	13,471	625	861
Software	8,794	8,389	562	536
<b>Total operating lease rentals paid</b>	<b>82,274</b>	<b>76,426</b>	<b>5,258</b>	<b>4,884</b>

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

		EEK'000	EUR'000
2010	Minimum amount of lease rentals payable	30,306	1,937
2011	Minimum amount of lease rentals payable	26,823	1,714
2012	Minimum amount of lease rentals payable	24,103	1,540

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

## NOTE 22. Trade payables

Note	EEK'000		EUR'000	
	31 Dec 2009	31 Dec 2008	31 Dec 2009	31 Dec 2008
Trade payables	244,764	439,615	15,643	28,096
Accrued expenses related to contract work	132,332	128,358	8,458	8,204
Payables to related parties	38 829	2,345	53	150
<b>Total short-term trade payables</b>	<b>377,925</b>	<b>570,318</b>	<b>24,154</b>	<b>36,450</b>
Trade payables	4,846	2,534	310	162
<b>Total long-term trade payables</b>	<b>4,846</b>	<b>2,534</b>	<b>310</b>	<b>162</b>

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

## NOTE 23. Other payables

	EEK'000		EUR'000	
	31 Dec 2009	31 Dec 2008	31 Dec 2009	31 Dec 2008
Payables to employees	47,333	86,412	3,025	5,523
Corporate income tax payable	0	0	0	0
Other taxes payable	45,438	65,760	2,904	4,203
Accrued expenses	1,742	4,520	111	289
Miscellaneous payables	67	585	4	37
<b>Total short-term other payables</b>	<b>94,580</b>	<b>157,277</b>	<b>6,044</b>	<b>10,052</b>
Other payables	1,500	0	96	0
<b>Total long-term other payables</b>	<b>1,500</b>	<b>0</b>	<b>96</b>	<b>0</b>

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

Accrued expenses include mainly interest accrued on loan contracts.

**Other taxes payable:**

	EEK'000		EUR'000	
	31 Dec 2009	31 Dec 2008	31 Dec 2009	31 Dec 2008
Value added tax	20,172	29,229	1,289	1,868
Personal income tax	7,309	10,983	467	702
Social tax	13,286	19,304	849	1,234
Miscellaneous taxes	4,671	6,244	299	399
<b>Total other taxes payable</b>	<b>45,438</b>	<b>65,760</b>	<b>2,904</b>	<b>4,203</b>

## NOTE 24. Deferred income

	Note	EEK'000		EUR'000	
		31 Dec 2009	31 Dec 2008	31 Dec 2009	31 Dec 2008
Due to customers from contract work	29	119,983	122,418	7,668	7,824
Prepayments received for goods and services		16,455	78,632	1,052	5,025
<b>Total deferred income</b>		<b>136,438</b>	<b>201,050</b>	<b>8,720</b>	<b>12,849</b>

## NOTE 25. Provisions

	EEK'000		EUR'000	
	31 Dec 2009	31 Dec 2008	31 Dec 2009	31 Dec 2008
Short-term provisions	10,364	11,600	662	741
Long-term provisions	7,041	6,630	450	424
<b>Total provisions</b>	<b>17,405</b>	<b>18,230</b>	<b>1,112</b>	<b>1,165</b>

**Changes in the value of provisions:**

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

Warranties provisions	EEK'000		EUR'000	
	2009	2008	2009	2008
<b>Opening balance</b>	<b>14,597</b>	<b>16,786</b>	<b>933</b>	<b>1,073</b>
Acquired through business combinations	6,051	0	387	0
Provisions used and reversed during the year	-15,621	-11,470	-998	-733
Provisions created during the year	11,600	9,281	741	593
<b>Closing balance of which</b>	<b>16,627</b>	<b>14,597</b>	<b>1,063</b>	<b>933</b>
Current portion	9,586	7,967	613	509
Non-current portion	7,041	6,630	450	424

In the reporting period, the Group created a short-term provision of 566 thousand kroons (36 thousand euros) for the rehabilitation of a site used for the extraction of road construction materials. The provision was fully used in 2009. During the period, the Group also used in full a provision of 3,421 thousand kroons (219 thousand euros) created for restoring the negative equity of the associate OÜ Kastani Kinnisvara.

Other provisions	EEK'000		EUR'000	
	2009	2008	2009	2008
<b>Opening balance</b>	<b>3,633</b>	<b>0</b>	<b>232</b>	<b>0</b>
Provisions created during the year	566	3,633	36	232
Provisions used and reversed during the year	-3,421	0	-219	0
<b>Closing balance of which</b>	<b>778</b>	<b>3,633</b>	<b>49</b>	<b>232</b>
Current portion	778	3,633	49	232
Non-current portion	0	0	0	0

## NOTE 26. Share capital and reserves

### Share capital

Number of shares, in thousands	2009	2008
At 1 January	30,757	30,757
<b>At 31 December</b>	<b>30,757</b>	<b>30,757</b>

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

At the reporting date, share capital stood at 307,567 thousand kroons (19,657 thousand euros). In 2009, share capital did not change.

### Capital reserve

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

### Translation reserve

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

### Dividends

Dividends distributed to shareholders:

Dividend information	2009	2008
Dividend per share, EEK	1.00 kroon per share	3.00 kroons per shares
Dividend per share, EUR	0.06 euros per share	0.19 euros per share
Total dividends paid, EEK'000	30,757	92,270
Total dividends paid, EUR'000	1,966	5,897

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

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

## NOTE 27. Earnings per share

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



		EEK '000		EUR '000	
		2009	2008	2009	2008
Profit / loss for the period		-45,740	145,580	-2,923	9,304
Weighted average number of shares	In thousands	30,757	30,757	30,757	30,757
Basic earnings per share		-1.49	4.73	-0.09	0.30
Diluted earnings per share		-1.49	4.73	-0.09	0.30

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

## NOTE 28. Segment reporting – business segments

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

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

- Buildings (European Union) – the construction of commercial, public and apartment buildings and industrial and warehouse facilities in Estonia and Lithuania
- Buildings (Ukraine) – the construction of commercial buildings and industrial and warehouse facilities in Ukraine
- Infrastructure (European Union) – road construction and maintenance, port construction, environmental engineering and other engineering (mainly water and sewerage networks, etc) in Estonia and Latvia.

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

The chief operating decision maker assesses the performance of an operating segment and the utilisation of the resources allocated to it through the profit generated by the segment. The profit of an operating segment is its gross profit that does not include any major exceptional expenditures (such as non-recurring asset write-downs). The expenses after the profit of an operating segment (including distribution and administrative expenses, interest expense, income tax expense) are not used by the chief operating decision maker to assess the performance of the segment on the basis of internally generated financial information. Such expenses are recorded in segment reporting using the same principles that are applied on their recognition in the financial statements.

Significant adjustments are related to the revenue, profit and assets of the Group's parent company because a holding company that does not engage in the core business activities does not constitute an operating segment. In the comparative period, the Parent was engaged in the core business.

### 2009

EEK'000 2009	Buildings EU	Buildings Ukraine	Infrastructure EU	Other segments	Total
Total revenue	984,158	73,724	1,451,257	69,710	2,578,849
Inter-segment revenue	-2,368	-91	-112,091	-51,572	-166,122
<b>Revenue from external customers</b>	<b>981,790</b>	<b>73,633</b>	<b>1,339,166</b>	<b>18,138</b>	<b>2,412,727</b>
<b>Segment profit / loss</b>	<b>79,663</b>	<b>698</b>	<b>20,357</b>	<b>-330</b>	<b>100,388</b>
Interest income	1,681	5,894	0	0	7,575
Interest expense	-4,873	-1,089	-3,329	-4,030	-13,321
Depreciation and amortisation	-1,103	-1,481	-40,042	-22,645	-65,271
Other significant non-cash transactions including write-down of assets <sup>1</sup>	-57,221	0	-8,156	-8,289	-73,666
<b>Segment profit / loss before tax</b>	<b>17,866</b>	<b>-27,400</b>	<b>-75,023</b>	<b>-14,289</b>	<b>-98,846</b>
Share of profit / loss of equity accounted investees	-5,274	0	-2,392	0	-7,666
<b>Segment assets</b>	<b>834,580</b>	<b>174,488</b>	<b>646,928</b>	<b>115,928</b>	<b>1,771,924</b>

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Investments in equity accounted investees	2,192	0	0	0	2,192
Capital expenditures	476	1,375	30,694	2,144	34,689
Segment liabilities	399,097	30,038	482,673	66,955	978,763

<b>EUR'000</b>	<b>Buildings</b>	<b>Buildings</b>	<b>Infrastructure</b>	<b>Other</b>	<b>Total</b>
<b>2009</b>	<b>EU</b>	<b>Ukraine</b>	<b>EU</b>	<b>segments</b>	
Total revenue	62,899	4,712	92,752	4,455	164,818
Inter-segment revenue	-151	-6	-7,164	-3,296	-10,617
<b>Revenue from external customers</b>	<b>62,748</b>	<b>4,706</b>	<b>85,588</b>	<b>1,159</b>	<b>154,201</b>
<b>Segment profit / loss</b>	<b>5,091</b>	<b>45</b>	<b>1,301</b>	<b>-21</b>	<b>6,416</b>
Interest income	107	377	0	0	484
Interest expense	-311	-70	-213	-258	-851
Depreciation and amortisation	-70	-95	-2,559	-1,447	-4,172
Other significant non-cash transactions including write-down of assets <sup>1</sup>	-3,657	0	-521	-530	-4,708
<b>Segment profit / loss before tax</b>	<b>1,142</b>	<b>-1,751</b>	<b>-4,795</b>	<b>-913</b>	<b>-6,317</b>
Share of profit / loss of equity accounted investees	-337	0	-153	0	-490
<b>Segment assets</b>	<b>53,339</b>	<b>11,152</b>	<b>41,346</b>	<b>7,409</b>	<b>113,246</b>
Investments in equity accounted investees	140	0	0	0	140
Capital expenditures	30	88	1,962	137	2,217
Segment liabilities	25,507	1,920	30,848	4,279	62,554

<sup>1</sup> Includes impairment losses recognised for investment properties and goodwill.

## 2008

<b>EEK'000</b>	<b>Buildings</b>	<b>Buildings</b>	<b>Infrastructure</b>	<b>Other</b>	<b>Total</b>
<b>2008</b>	<b>EU</b>	<b>Ukraine</b>	<b>EU</b>	<b>segments</b>	
Total revenue	1,847,317	441,037	1,717,735	74,681	4,080,770
Inter-segment revenue	-151,452	0	-19,238	-42,163	-212,853
<b>Revenue from external customers</b>	<b>1,695,865</b>	<b>441,037</b>	<b>1,698,497</b>	<b>32,518</b>	<b>3,867,917</b>
<b>Segment profit / loss</b>	<b>254,026</b>	<b>34,773</b>	<b>72,515</b>	<b>-3,403</b>	<b>357,911</b>
Interest income	4,387	5,026	0	0	9,413
Interest expense	-16,546	-2,792	-14,251	-4,290	-37,879
Depreciation and amortisation	-2,312	-3,779	-42,853	-23,747	-72,691
Other significant non-cash transactions including write-down of assets <sup>1</sup>	-11,530	0	0	0	-11,530
<b>Segment profit before tax</b>	<b>90,985</b>	<b>39,735</b>	<b>80,505</b>	<b>1,361</b>	<b>212,586</b>
Share of profit / loss of equity accounted investees	-1,271	-19,866	-3,616	0	-24,753
<b>Segment assets</b>	<b>999,826</b>	<b>271,534</b>	<b>968,892</b>	<b>126,995</b>	<b>2,367,247</b>
Investments in equity accounted investees	5,927	0	0	0	5,927
Capital expenditures	9,139	2,940	102,840	35,375	150,294
Segment liabilities	573,496	65,285	776,733	88,421	1,503,935

<b>EUR'000</b>	<b>Buildings</b>	<b>Buildings</b>	<b>Infrastructure</b>	<b>Other</b>	<b>Total</b>
<b>2008</b>	<b>EU</b>	<b>Ukraine</b>	<b>EU</b>	<b>segments</b>	
Total revenue	118,065	28,187	109,783	4,773	260,809
Inter-segment revenue	-9,680	0	-1,230	-2,695	-13,604
<b>Revenue from external customers</b>	<b>108,386</b>	<b>28,187</b>	<b>108,554</b>	<b>2,078</b>	<b>247,205</b>

<b>Segment profit / loss</b>	<b>16,235</b>	<b>2,222</b>	<b>4,635</b>	<b>-217</b>	<b>22,875</b>
Interest income	280	321	0	0	602
Interest expense	-1,057	-178	-911	-274	-2,421
Depreciation and amortisation	-148	-242	-2,739	-1,518	-4,646
Other significant non-cash transactions including write-down of assets <sup>1</sup>	-737	0	0	0	-737
<b>Segment profit /loss before tax</b>	<b>5,815</b>	<b>2,540</b>	<b>5,145</b>	<b>87</b>	<b>13,587</b>
Share of profit / loss of equity accounted investees	-81	-1,270	-231	0	-1,582
<b>Segment assets</b>	<b>63,901</b>	<b>17,354</b>	<b>61,923</b>	<b>8,116</b>	<b>151,295</b>
Investments in equity accounted investees	379	0	0	0	379
Capital expenditures	584	188	6,573	2,261	9,606
Segment liabilities	36,653	4,172	49,642	5,651	96,119

<sup>1</sup> Includes impairment losses recognised for investment properties and goodwill.

## Adjustments

	2009	EEK'000 2008	2009	EUR'000 2008
Interest income for reportable segments	7,575	9,413	484	602
Adjustments	2,238	0	143	0
<b>Consolidated interest income</b>	<b>9,813</b>	<b>9,413</b>	<b>627</b>	<b>602</b>
Interest expense for reportable segments	-13,321	-37,879	-851	-2,421
Adjustments	-13,316	0	-851	0
<b>Consolidated interest expense</b>	<b>-26,637</b>	<b>-37,879</b>	<b>-1,702</b>	<b>-2,421</b>
Depreciation and amortisation for reportable segments	-65,271	-72,691	-4,172	-4,646
Adjustments	-4,570	0	-292	0
<b>Consolidated depreciation and amortisation</b>	<b>-69,841</b>	<b>-72,691</b>	<b>-4,464</b>	<b>-4,646</b>
Other significant non-cash transactions for reportable segments including write-down of assets	-57,221	-11,530	-3,657	-737
Adjustments	0	0	0	0
<b>Consolidated other significant non-cash transactions including write-down of assets</b>	<b>-57,221</b>	<b>-11,530</b>	<b>-3,657</b>	<b>-737</b>
Capital expenditures for reportable segments	34,689	150,294	2,217	9,606
Adjustments	7,528	0	481	0
<b>Consolidated capital expenditures for reportable segments</b>	<b>42,217</b>	<b>150,294</b>	<b>2,698</b>	<b>9,606</b>
Liabilities for reportable segments	978,763	1,503,935	62,554	96,119
Adjustments	211,218	0	13,499	0
<b>Consolidated liabilities</b>	<b>1,189,981</b>	<b>1,503,935</b>	<b>76,054</b>	<b>96,119</b>

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

## Reconciliation of segment revenues

	2009	EEK'000 2008	2009	EUR'000 2008
Total revenues for reportable segments	2,509,139	4,006,089	160,363	256,036
Revenue for other segments	69,710	74,681	4,455	4,773
Elimination of inter-segment revenues	-166,122	-212,853	-10,617	-13,604
Other revenue	6,153	0	393	0
<b>Total consolidated revenue</b>	<b>2,418,880</b>	<b>3,867,917</b>	<b>154,594</b>	<b>247,205</b>

## Reconciliation of segment profit

	EEK'000		EUR'000	
	2009	2008	2009	2008
Total profit for reportable segments	100,718	361,314	6,437	23,092
Total profit or loss for other segments	-330	-3,403	-21	-217
Other profit	35,917	0	2,296	0
<b>Total</b>	<b>136,305</b>	<b>357,911</b>	<b>8,711</b>	<b>22,875</b>
Unallocated expenses:				
Distribution expenses	-9,416	-8,007	-602	-512
Administrative expenses	-125,206	-182,526	-8,002	-11,666
Other operating income / expenses	-128,422	41,102	-8,207	2,627
<b>Consolidated operating profit / loss</b>	<b>-126,739</b>	<b>208,480</b>	<b>-8,100</b>	<b>13,324</b>
Finance income	86,513	96,877	5,529	6,192
Finance expenses	-33,934	-68,019	-2,169	-4,347
Share of profit / loss of equity accounted investees	-7,666	-24,753	-490	-1,582
<b>Consolidated profit / loss before tax</b>	<b>-81,826</b>	<b>212,585</b>	<b>-5,230</b>	<b>13,587</b>

## Reconciliation of segment assets

	EEK'000		EUR'000	
	31 Dec 2009	31 Dec 2008	31 Dec 2009	31 Dec 2008
Total assets for reportable segments	1,711,771	2,307,134	109,402	147,453
Total assets from other segments	142,885	171,637	9,132	10,970
Inter-segment eliminations	-82,462	-111,524	-5,270	-7,128
Other assets	118,498	0	7,573	0
<b>Total consolidated assets</b>	<b>1,890,692</b>	<b>2,367,247</b>	<b>120,836</b>	<b>151,295</b>

## Segment reporting – geographical information

	EEK'000		EUR'000	
	2009	2008	2009	2008
<b>Revenue</b>				
Estonia	2,065,366	3,107,253	132,001	198,590
Ukraine	73,724	441,037	4,712	28,187
Latvia	270,277	229,757	17,274	14,684
Lithuania	10,678	91,081	682	5,821
Inter-segment eliminations	-1,165	-1,211	-74	-77
<b>Total revenue</b>	<b>2,418,880</b>	<b>3,867,917</b>	<b>154,594</b>	<b>247,205</b>
<b>Assets based on geographical location<sup>1</sup></b>				
Estonia	516,499	631,238	33,010	40,343
Ukraine	3,990	5,412	255	346
Latvia	39,778	48,544	2,542	3,103
Lithuania	56	72	4	5
<b>Total assets</b>	<b>560,323</b>	<b>685,266</b>	<b>35,811</b>	<b>43,797</b>

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

## NOTE 29. Construction contracts

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

Active construction contracts from date of commencement	EEK´000		EUR´000	
	31 Dec 2009	31 Dec 2008	31 Dec 2009	31 Dec 2008
Costs under stage of completion method	1,580,853	4,169,789	101,035	266,498
Estimated profit	142,577	463,529	9,112	29,625
Revenue under stage of completion method	1,723,430	4,633,318	110,148	296,123
Progress billings	1,807,866	4,579,406	115,544	292,677
<b>Total progress billings in excess of costs incurred</b>	<b>-84,436</b>	<b>-53,912</b>	<b>-5,396</b>	<b>-3,446</b>
Including due from customers (note 9)	35,547	176,330	2,272	11,270
Including due to customers (note 24)	119,983	122,418	7,668	7,824

At the reporting date, retentions under construction contracts (see note 9) totalled 36,884 thousand kroons (2,357 thousand euros). The corresponding figure for 2008 was 27,897 thousand kroons (1,783 thousand euros)

### Sensitivity analysis for stage of completion

A 5% increase / decrease in the stage of completion of all active construction contracts would increase / reduce revenue for the period by approximately 93,500 thousand kroons (5,976 thousand euros) and gross profit by approximately 3,300 thousand kroons (211 thousand euros).

## NOTE 30. Cost of sales

	EEK´000		EUR´000	
	2009	2008	2009	2008
Materials, goods and services used	1,919,920	3,041,487	122,705	194,386
Personnel expenses	287,859	381,360	18,398	24,373
Other expenses	10,091	17,942	645	1,147
Depreciation and amortisation expense	64,705	69,217	4,135	4,424
<b>Total cost of sales</b>	<b>2,282,575</b>	<b>3,510,006</b>	<b>145,883</b>	<b>224,330</b>

## NOTE 31. Administrative expenses

	EEK´000		EUR´000	
	2009	2008	2009	2008
Personnel expenses	75,601	117,074	4,832	7,482
Materials, goods and services used	38,189	50,913	2,441	3,254
Other expenses	6,280	11,075	401	708
Depreciation and amortisation expense	5,136	3,464	328	221
<b>Total administrative expenses</b>	<b>125,206</b>	<b>182,526</b>	<b>8,002</b>	<b>11,666</b>

## NOTE 32. Other operating income and expenses

### Other operating income

	EEK´000		EUR´000	
	2009	2008	2009	2008
Gains on sale of property, plant and equipment and intangible assets	3,709	4,858	237	310
Gain on sale and revaluation of real estate	0	256	0	16
Foreign exchange gain	0	37,235	0	2,380
Other income	21,883	21,598	1,399	1,380
<b>Total other operating income</b>	<b>25,592</b>	<b>63,947</b>	<b>1,636</b>	<b>4,087</b>

Other income of 21,883 thousand kroons (1,399 thousand euros) includes income of 15,065 thousand kroons (963 thousand euros) from sale of materials.

**Other operating expenses**

	Note	2009	EEK`000 2008	2009	EUR`000 2008
Losses on sale and write-off of property, plant and equipment and intangible assets		10,249	789	655	50
Write-down of goodwill	19	61,206	0	3,912	0
Gain/loss from write-down of receivables	9, 35	42,049	-9,031	2,687	-577
Impairment losses on investment property	17	12,460	11,530	796	737
Losses on sale of investment property	17	7,823	0	500	0
Foreign exchange losses		29	1,530	2	98
Membership fees		134	60	9	4
Other expenses		20,064	17,967	1,282	1,148
<b>Total other operating expenses</b>		<b>154,014</b>	<b>22,845</b>	<b>9,843</b>	<b>1,460</b>

Other expenses of 20,064 thousand kroons (1,282 thousand euros) include expenses of 15,065 thousand kroons (963 thousand euros) from sale of materials.

**NOTE 33. Finance income and expenses****Finance income**

	Note	2009	EEK`000 2008	2009	EUR`000 2008
Gains on disposal of investments in subsidiaries	7	737	163	47	10
Gains on disposal of investments in associates		0	66,859	0	4,274
Foreign exchange gains		513	648	34	41
Interest income on loans		11,305	9,413	722	602
Finance income on other investments	7	46,263	5,233	2,956	334
Other finance income		27,695	14,561	1,770	931
<b>Total finance income</b>		<b>86,513</b>	<b>96,877</b>	<b>5,529</b>	<b>6,192</b>

Interest income on loans comprises interest income on loans granted to related parties and non-Group legal persons. See also note 8.

Finance income on other investments includes negative goodwill of 45,056 thousand kroons (2,880 thousand euros) acquired on the acquisition of an additional stake in AS Eston Ehitus from the non-controlling shareholders.

Other finance income includes: finance income of 7,916 thousand kroons (506 thousand euros) acquired on the acquisition of a stake in OÜ Kalda Kodu; Eurocon Ukraine LLC's finance income of 10,011 thousand kroons (640 thousand euros) earned under contracts signed with the customers for mitigating the currency risk. The remainder of other finance income consists mostly of interest earned on current accounts.

**Finance expenses**

	2009	EEK`000 2008	2009	EUR`000 2008
Interest expense	26,637	37,879	1,703	2,421
Other finance expenses	6,153	422	393	27
Foreign exchange losses	1,144	29,718	73	1,899
<b>Total finance expenses</b>	<b>33,934</b>	<b>68,019</b>	<b>2,169</b>	<b>4,347</b>

**NOTE 34. Income tax expense**

	Note	2009	EEK`000 2008	2009	EUR`000 2008
<b>Current tax expense:</b>					
Income tax (on profit) using the Estonian tax rate <sup>1</sup>		0	0	0	0
Income tax in foreign jurisdictions		-1,646	10,403	-105	665
<b>Deferred tax expense:</b>					
Deferred tax expense from temporary differences	13	776	1,129	50	72
<b>Other income tax expense:</b>					
Income tax paid on dividends in Estonia <sup>2</sup>		8,489	29,737	543	1,901
<b>Total income tax expense</b>		<b>7,618</b>	<b>41,269</b>	<b>487</b>	<b>2,638</b>

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

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

## NOTE 35. Financial instruments and financial risk management

### Credit risk

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

	Note	Carrying amount			
		2009	EEK'000 2008	2009	EUR'000 2008
Cash and cash equivalents	8	225,191	296,184	14,392	18,930
Trade receivables	9	338,767	474,141	21,651	30,303
Retentions receivable	9	37,930	27,897	2,424	1,783
Receivables from related parties	9	48,235	76,550	3,083	4,892
Loans to related parties	9	165,799	116,262	10,596	7,430
Loans to legal persons	9	40,241	40,853	2,572	2,611
Miscellaneous receivables	9	11,514	9,084	736	580
Due from customers for contract work	9	35,547	176,330	2,272	11,270
<b>Total</b>		<b>903,224</b>	<b>1,217,301</b>	<b>57,726</b>	<b>77,799</b>

Financial assets (excluding cash and cash equivalents) at the reporting date by geographical region:

	EEK'000			
	2009	2008	2009	EUR'000 2008
Estonia	439,961	560,796	28,119	35,841
Ukraine	152,361	196,077	9,738	12,532
Latvia	85,643	149,423	5,474	9,550
Lithuania	68	14,821	4	947
<b>Total</b>	<b>679,079</b>	<b>921,117</b>	<b>43,401</b>	<b>58,870</b>

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

Past due	EEK'000				EUR'000			
	31 Dec 2009		31 Dec 2008		31 Dec 2009		31 Dec 2008	
	Trade receivables	Impairment loss	Trade receivables	Impairment loss	Trade receivables	Impairment loss	Trade receivables	Impairment loss
Not past due	225,565	0	301,889	0	14,416	0	19,294	0
0-30 days	9,095	0	72,793	0	581	0	4,652	0
31-180 days	72,012	0	91,105	781	4,602	0	5,823	50
Over 180 days <sup>1</sup>	43,356	11,261	16,465	7,330	2,771	720	1,052	468
<b>Total</b>	<b>350,028</b>	<b>11,261</b>	<b>482,252</b>	<b>8,111</b>	<b>22,371</b>	<b>720</b>	<b>30,822</b>	<b>518</b>

<sup>1</sup> Receivables that are more than 180 days overdue are not written down if they are being settled on the basis of settlement schedules that are being adhered to or if the receivables are secured with additional collateral.

Changes in the allowance for doubtful receivables during the year:

	EEK'000			
	2009	2008	2009	EUR'000 2008
Opening balance	-8,111	-17,774	-518	-1,136
Doubtful items recovered during the year	0	19,327	0	1,235
Impairment losses on receivables	-17,481	-10,296	-1,117	-658
Items considered irrecoverable during the year	14,331	632	916	40
<b>Total</b>	<b>-11,261</b>	<b>-8,111</b>	<b>-720</b>	<b>-518</b>

In 2009, net loss on the write-down and recovery of receivables amounted to 17,481 thousand kroons (1,117 thousand euros). In 2008, recoveries of receivables written down in previous periods exceeded write-downs performed during the period and the Group recognised a net gain of 9,031 thousand kroons (577 thousand euros). See also note 32.

## Liquidity risk

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

EEK'000						31 Dec 2009
Financial liability	Carrying amount	Contractual cash flows	Less than 1 year	1-2 years	2-5 years	Over 5 years
Overdraft	123,832	125,771	125,771	-	-	-
Bank loans	326,184	355,114	113,099	151,625	88,483	1,907
Finance lease liabilities	107,270	116,459	46,584	36,102	33,773	-
Trade payables	250,439	250,439	245,593	4,846	-	-
Other liabilities	50,642	50,642	49,142	1,500	-	-
<b>Total</b>	<b>858,367</b>	<b>898,425</b>	<b>580,189</b>	<b>194,073</b>	<b>122,256</b>	<b>1,907</b>

EUR'000						31 Dec 2009
Financial liability	Carrying amount	Contractual cash flows	Less than 1 year	1-2 years	2-5 years	Over 5 years
Overdraft	7,914	8,038	8,038	0	0	0
Bank loans	20,847	22,696	7,228	9,691	5,655	122
Finance lease liabilities	6,856	7,443	2,977	2,307	2,158	0
Trade payables	16,006	16,006	15,696	310	0	0
Other liabilities	3,237	3,237	3,141	96	-	-
<b>Total</b>	<b>54,860</b>	<b>57,420</b>	<b>37,081</b>	<b>12,404</b>	<b>7,814</b>	<b>122</b>

EEK'000						31 Dec 2008
Financial liability	Carrying amount	Contractual cash flows	Less than 1 year	1-2 years	2-5 years	Over 5 years
Overdraft	7,823	7,888	7,888	0	0	0
Bank loans	401,421	456,526	204,502	123,189	124,725	4,110
Finance lease liabilities	145,282	164,113	54,522	46,534	62,121	937
Trade payables	444,503	444,503	441,960	2,534	0	0
Other liabilities	75,101	75,101	75,101	0	0	0
<b>Total</b>	<b>1,074,130</b>	<b>1,148,131</b>	<b>783,973</b>	<b>172,257</b>	<b>186,846</b>	<b>5,047</b>

EUR'000						31 Dec 2008
Financial liability	Carrying amount	Contractual cash flows	Less than 1 year	1-2 years	2-5 years	Over 5 years
Overdraft	500	504	504	0	0	0
Bank loans	25,655	29,177	13,070	7,873	7,971	263
Finance lease liabilities	9,285	10,489	3,485	2,974	3,970	60
Trade payables	28,409	28,409	28,246	162	0	0
Other liabilities	4,800	4,800	4,800	0	0	0
<b>Total</b>	<b>68,649</b>	<b>73,379</b>	<b>50,105</b>	<b>11,009</b>	<b>11,942</b>	<b>323</b>

At the reporting date, the Group's guarantee and surety liabilities (note 36) totalled 515,148 thousand kroons (32,924 thousand euros). The liquidity risk in those is insignificant since the probability of realisation of these contingent liabilities is low.

## Currency risk

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



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

´000						2008
	EEK	EUR	LVL	LTL	UAH	
Cash and cash equivalents	287,074	0	287	4	1,885	
Short-term receivables	682,222	2,911	346	772	20,917	
Long-term receivables	33,840	5,034	0	0	0	
<b>Total</b>	<b>1,003,136</b>	<b>7,945</b>	<b>633</b>	<b>776</b>	<b>22,802</b>	
Current liabilities	753,913	1,007	3,192	775	12,850	
Non-current liabilities	2,525	20,269	0	0	1,025	
<b>Total</b>	<b>756,438</b>	<b>21,276</b>	<b>3,192</b>	<b>775</b>	<b>13,875</b>	
<b>Net exposure</b>	<b>246,698</b>	<b>-13,331</b>	<b>-2,559</b>	<b>1</b>	<b>8,927</b>	

The following exchange rates applied at the reporting date:

	Date	Euro (EUR)	Latvian lats (LVL)	Lithuanian litas (LTL)	Ukrainian hryvna (UAH)
1 kroon (EEK)	31 Dec 2009	0.0639	0.0545	0.2207	0.7409
1 kroon (EEK)	31 Dec 2008	0.0639	0.0452	0.2207	0.7112

A 10% weakening / strengthening of the Estonian kroon against the above currencies at 31 December 2009 would have reduced / increased profit through the re-measurement of cash and cash equivalents and receivables and liabilities denominated in foreign currency by 43,612 thousand kroons (2,787 thousand euros). The analysis assumes that all other variables remain constant.

## Interest rate risk

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

	Carrying amount			
	2009	EEK´000 2008	2009	EUR´000 2008
<b>Fixed rate financial instruments</b>				
Financial assets (loans to related parties and legal persons, note 9)	206,040	157,115	13,168	10,041
Financial liabilities (note 20)	135,227	379,531	8,643	24,256
<b>Floating rate financial instruments</b>				
Financial assets (Cash and cash equivalents, note 8)	225,191	296,184	14,392	18,930
Financial liabilities (including finance lease liabilities) (note 20)	422,059	174,995	26,974	11,184
<b>Net exposure</b>	<b>-196,868</b>	<b>121,189</b>	<b>-12,582</b>	<b>7,746</b>

EURIBOR rates as at the reporting date:

	2009	2008
3 month EURIBOR	0.700%	2.892%
6 month EURIBOR	0.994%	2.971%

An increase/a decrease of 100 basis points in the variable part of the interest rate (EURIBOR) of floating rate instruments at the reporting date would affect interest-related cash flow and would increase/reduce profit for the next financial year by 1,479 thousand kroons (96 thousand euros). The analysis assumes that all other variables remain constant.

## Fair value

At the reporting date, the fair values and carrying amounts of the Group's financial instruments were as follows:

2009	EEK'000		EUR'000	
	Carrying amount	Fair value	Carrying amount	Fair value
Cash and cash equivalents	225,191	225,191	14,392	14,392
Trade receivables	338,767	338,767	21,651	21,651
Retentions receivable	36,884	36,884	2,357	2,357
Receivables from related parties	48,235	48,235	3,083	3,083
Loans to equity accounted investees	165,799	166,566	10,596	10,646
Loans to legal persons	40,241	42,621	2,572	2,724
Other short-term receivables	11,514	11,514	736	736
Overdraft	-123,832	-123,832	-7,914	-7,914
Bank loans	-326,184	-322,067	-20,847	-20,584
Finance lease liabilities	-107,270	-107,270	-6,856	-6,856
Trade payables	-244,764	-244,764	-15,643	-15,643
Payables to related parties	-829	-829	-53	-53
Other liabilities	-50,642	-50,642	-3,237	-3,237
<b>Unrealised gain</b>		<b>7,264</b>		<b>464</b>

2008	EEK'000		EUR'000	
	Carrying amount	Fair value	Carrying amount	Fair value
Cash and cash equivalents	296,184	296,184	18,930	18,930
Trade receivables	474,141	474,141	30,303	30,303
Retentions receivable	27,897	27,897	1,783	1,783
Receivables from related parties	76,550	76,550	4,892	4,892
Loans to equity accounted investees	116,262	116,987	7,430	7,477
Loans to legal persons	40,853	43,887	2,611	2,805
Other short-term receivables	9,084	9,084	581	581
Overdraft	-7,823	-7,823	-500	-500
Bank loans	-401,421	-398,864	-25,655	-25,492
Finance lease liabilities	-145,282	-145,233	-9,285	-9,282
Trade payables	-439,615	-439,615	-28,097	-28,097
Payables to related parties	-2,345	-2,345	-150	-150
Other liabilities	-157,277	-157,277	-10,052	-10,052
<b>Unrealised gain</b>		<b>5,157</b>		<b>407</b>

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

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

	2009	2008
	Average market interest rate	
Loans given in Estonia	6-7%	9%
Loans received in Estonia	4%	6%
Loans received in Ukraine	15%	13%
Finance lease	5%-6%	6% - 8%

## NOTE 36. Contingent liabilities

### Contingent income tax liability

	EEK'000		EUR'000	
	31 Dec 2009	31 Dec 2008	31 Dec 2009	31 Dec 2008
Retained earnings	345,280	426,995	22,067	27,290
Contingent income tax liability	72,509	89,669	4,634	5,731
The amount that could be distributed as the net dividend	272,771	337,326	17,433	21,559

The maximum income tax liability has been calculated on the assumption that the net dividend and the arising income tax expense may not exceed the distributable profits as of 31 December 2009.

### Bank guarantees issued and surety agreements

For securing customers the obligations arising from Group entities' construction activities, financial obligations and surety commitments, guarantees and sureties are issued. Guarantees to customers have been issued by bank and secured by commercial pledge. The guarantees expire within up to five years. The realisation probability of the guarantees and surety commitments is low. Therefore, they have not been recognised as liabilities in the statement of financial position.

At the reporting date, the Group's guarantee and surety liabilities totalled 515,148 thousand kroons (32,924 thousand euros). The corresponding figure for the comparative period was 509,516 thousand kroons (32,564 thousand euros).

#### Bank guarantees issued:

- At the reporting date, guarantees issued to customers by Swedbank AS for securing Group entities' commitments under construction contracts totalled 298,207 thousand kroons (19,059 thousand euros). The corresponding figure for the comparative period was 273,213 thousand kroons (17,461 thousand euros);
- At the reporting date, guarantees issued to customers by AS SEB Pank for securing Group entities' commitments under construction contracts totalled 195,234 thousand kroons (12,478 thousand euros). The corresponding figure for the comparative period was 216,510 thousand kroons (13,837 thousand euros).

#### Surety agreements:

Group entities stand surety for the liabilities of associates and joint ventures of 21,707 thousand kroons (1,387 thousand euros). The corresponding figure for the comparative period was 19,793 thousand kroons (1,265 thousand euros).

## NOTE 37. Assets pledged as collateral

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

#### Commercial pledges

At the reporting date, the Parent and the subsidiaries had pledged their movable property under commercial pledges to the extent of 833,381 thousand kroons (53,263 thousand euros). The corresponding figure for the comparative period was 754,583 thousand kroons (48,227 thousand euros).

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

#### Mortgages

At the reporting date, the total value of the mortgages established by the Group's subsidiaries on immovable property (plots and buildings) amounted to 246,840 thousand kroons (15,776 thousand euros). The corresponding figure for the comparative period was 159,763 thousand kroons (10,211 thousand euros).

Assets of the following classes have been mortgaged:

Asset class	EEK'000		EUR'000	
	2009	2008	2009	2008
Inventories	223,140	14,261	141,000	9,012
Investment properties	11,700	748	18,763	1,199
Property, plant and equipment (land and buildings)	12,000	767	0	0
<b>Total</b>	<b>246,840</b>	<b>15,776</b>	<b>159,763</b>	<b>10,211</b>

#### Share pledges

The Group has secured its investment loans by pledging its shares in the following subsidiaries: Nordecon Ehitus AS (100%) ordinary shares, Nordecon Infra AS (100%) ordinary shares, AS Eston Ehitus (97.7%) ordinary shares.

## NOTE 38. Transactions with related parties

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

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

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

Volume of transactions performed	2009		2008		2009		2008	
	Purchase	Sale	Purchase	Sale	Purchase	Sale	Purchase	Sale
AS Nordic Contractors	7,589	778	13,518	4,296	485	50	864	275
Companies of AS Nordic Contractors group	0	159,614	3,012	218,849	0	10,201	193	13,987
Equity accounted investees	0	8,108	0	761	0	518	0	49
Companies related to a member of the council	479	0	2,244	6,185	31	0	143	395
<b>Total</b>	<b>8,068</b>	<b>168,500</b>	<b>18,774</b>	<b>230,091</b>	<b>516</b>	<b>10,769</b>	<b>1,200</b>	<b>14,705</b>

Substance of transactions performed	2009		2008		2009		2008	
	Purchase	Sale	Purchase	Sale	Purchase	Sale	Purchase	Sale
Construction services	0	159,126	0	219,610	0	10,170	0	14,036
Purchase and sale of goods	0	1,266	0	0	0	81	0	0
Lease an other services	8,068	8,108	18,774	10,481	516	518	1,200	670
<b>Total</b>	<b>8,068</b>	<b>168,500</b>	<b>18,774</b>	<b>230,091</b>	<b>516</b>	<b>10,769</b>	<b>1,200</b>	<b>14,705</b>

Transactions with related parties have been conducted on market terms or using relevant transfer pricing principles.

At period-end, receivables from and liabilities to related parties broke down as follows:

EEK`000	31 Dec 2009		31 Dec 2008	
	Receivables	Payables	Receivables	Payables
AS Nordic Contractors	20	809	1,173	1,378
Companies of AS Nordic Contractors group	32,421	15	52,726	961
Companies related to a member of the council	0	0	236	0
Equity accounted investees – trade items	15,793	6	23,824	4
Equity accounted investees – loans and interest	140,795	0	116,262	0
<b>Total</b>	<b>189,030</b>	<b>830</b>	<b>194,221</b>	<b>2,343</b>

EUR`000	31 Dec 2009		31 Dec 2008	
	Receivables	Payables	Receivables	Payables
AS Nordic Contractors	1	52	75	88
Companies of AS Nordic Contractors group	2,072	1	3,370	61
Companies related to a member of the council	0	0	15	0
Equity accounted investees – trade items	1,009	0	1,523	0
Equity accounted investees – loans and interest	8,998	0	7,430	0
<b>Total</b>	<b>12,080</b>	<b>53</b>	<b>12,413</b>	<b>150</b>

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

**Loans to related parties:**

<b>EEK´000</b>				<b>2009</b>		<b>2008</b>	
	<b>Related party</b>	<b>Interest rate</b>	<b>Currency</b>	<b>Loan</b>	<b>Incl. interest</b>	<b>Loan</b>	<b>Incl. interest</b>
OÜ Kastani Kinnisvara	Associate	10.0%	EEK	8,046	0	14,793	1,293
OÜ Crislivinca	Associate	6.0%	EEK	7,117	612	5,412	244
OÜ Sepavara	Associate	6.0%	EEK	2,088	192	1,099	99
OÜ Kalda Kodu <sup>1</sup>	Associate	6.0%	EEK	0	0	6,235	704
TOV Technopolis-2	Associate	9.8%	EUR	10,931	2,315	9,954	1,481
TOV V.I. Center	Associate	6.0%	EUR	93,053	8,042	78,769	3,052
OÜ Unigate	Joint venture	6.0%	EUR	19,560	3,160	0	0
AS Arealis	Company of AS Nordic Contractors group	9.0%	EEK	25,004	4	0	0
<b>Total</b>				<b>165,799</b>	<b>14,325</b>	<b>116,262</b>	<b>6,873</b>
Including current portion				137,034	10,361	11,247	2,774
Including non-current portion				28,765	3,964	105,015	4,099

<b>EUR´000</b>				<b>2009</b>		<b>2008</b>	
	<b>Related party</b>	<b>Interest rate</b>	<b>Currency</b>	<b>Loan</b>	<b>Incl. interest</b>	<b>Loan</b>	<b>Incl. interest</b>
OÜ Kastani Kinnisvara	Associate	10.0%	EEK	514	0	945	83
OÜ Crislivinca	Associate	6.0%	EEK	455	39	346	16
OÜ Sepavara	Associate	6.0%	EEK	133	12	70	6
OÜ Kalda Kodu <sup>1</sup>	Associate	6.0%	EEK	0	0	398	45
TOV Technopolis-2	Associate	9.8%	EUR	699	148	640	95
TOV V.I. Center	Associate	6.0%	EUR	5,947	514	5,034	195
OÜ Unigate	Joint venture	8.0%	EUR	1,250	202	0	0
AS Arealis	Company of AS Nordic Contractors group	9.0%	EEK	1,598	0	0	0
<b>Total</b>				<b>10,596</b>	<b>916</b>	<b>7,431</b>	<b>439</b>
Including current portion				8,758	662	719	177
Including non-current portion				1,838	253	6,712	262

<sup>1</sup> In the reporting period, Kalda Kodu OÜ became a subsidiary of the Group (see also note 7).

In 2009, the loan given to OÜ Kastani Kinnisvara was written down by 3,317 thousand kroons (212 thousand euros): loan principal was written down by 1,154 thousand kroons (74 thousand euros) and interest receivable was written down by 2,163 thousand kroons (138 thousand euros). The write-down expenses have been recognised in other finance income.

**Remuneration of the members of the board and council**

In 2009, the service fees and bonus benefits of the members of the board of Nordecon International AS including social security charges totalled 3,254 thousand kroons (208 thousand euros). The corresponding figure for 2008 was 14,514 thousand kroons (928 thousand euros). The differences in the remuneration of the board stem from the fact that from 5 January 2009 the board had three members and since October 2009 there have been two members while in 2008 the number was five. In addition, the figure has been impacted by a 15% reduction in board member remuneration across the Group.

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

In 2009, the remuneration of the members of the council of Nordecon International AS including social security charges totalled 1,436 thousand kroons (92 thousand euros). In 2008, the corresponding figure was 1,443 thousand kroons (92 thousand euros).

**NOTE 39. Events after the reporting date**

Subsequent events that do not affect the valuation of assets and liabilities at the reporting date but will have an impact on the financial information for the next financial year are the following:

### Sale of a subsidiary

On 15 February 2010, Nordecon International AS sold its 56% stake in the Latvian subsidiary Nordecon Infra SIA (including investments in its subsidiaries Vides Tikli SIA, LCB SIA and B/S PKT). Because the equity of the subsidiary that had been operating with a loss was negative, the Group recognised sales gain of 37,268 thousand kroons (2,382 thousand euros). At the same time, the Group derecognised the goodwill allocated to Nordecon Infra SIA of 1,710 thousand kroons (109 thousand euros). As at 31 March 2010, the Group wrote down receivables from Nordecon Infra SIA by 14,529 thousand kroons (929 thousand euros).

### Restructuring of loans and receivables

The Group's subsidiary AS Eston Ehitus built a shopping mall in the city of Pärnu (Pärnu Keskus – Pärnu Centre) which was completed in 2009. In addition to the mall facilities, the building contains 60 apartments whose final finishing works have not been completed. On 15 January 2010, corporate rehabilitation proceedings were initiated in respect of Aida Partnerid OÜ, the customer that commissioned the construction of the building, because the entity was unable to meet its obligations to creditors. Pärnu County Court approved the rehabilitation plan on 12 April 2010.

Under the rehabilitation plan, creditor claims against Aida Partnerid OÜ that amount to less than 10 thousand kroons (0.6 thousand euros) will be satisfied in full. Claims exceeding that amount will be satisfied to the extent of 20% except for the claims filed by the financing institutions that funded the construction of the Centre and by AS Eston Ehitus that built the Centre, which will remain valid in full because they are secured with pledges. In addition, according to the rehabilitation plan the present owners of Aida Partnerid OÜ will surrender their ownership interests in the company and the shares (100%) will be acquired by a new investment holding company established by AS Eston Ehitus. In view of the financial position of Aida Partnerid OÜ, the purchase price will not be more than the company's book value at the reporting date, i.e. 3 936 thousand kroons (252 thousand euros). Since the Group will become the owner of the company managing the shopping mall, all claims against Aida Partnerid OÜ will be transformed in full into investments in the equity of the said company. The claim of AS Eston Ehitus against Aida Partnerid OÜ amounts to 23,034 thousand kroons (1,472 thousand euros). In accordance with the rehabilitation plan, the bank that financed the construction of the Centre is prepared to refinance the loans it has granted on terms and conditions that allow completing the apartments and operating the Centre in line with the approved plan.

The construction of a parking house for Pärnu Centre has been suspended for a long time because the customer Win Markets OÜ is unable to finance the completion of the building and paying for the work done. The bank that provided the financing and the company that provided the construction services are the same as in the case of Pärnu Centre. The claim of AS Eston Ehitus against Win Markets OÜ amounts to 19,200 thousand kroons (1,227 thousand euros). Without radical intervention, Win Markets OÜ would also be facing corporate rehabilitation or bankruptcy proceedings. The owners of Win Markets OÜ and Aida Partnerid OÜ are the same. Therefore, they have decided to surrender also their ownership interests in Win Markets OÜ, which will also be acquired by the investment holding company established by AS Eston Ehitus. According to plan, the claims against Win Markets OÜ will be transformed into equity investments similarly to the claims against Aida Partnerid OÜ.

AS Eston Ehitus has granted loans to non-Group legal persons that are related to the owners of Aida Partnerid OÜ and Win Markets OÜ. At the reporting date, relevant principal and interest receivables totalled 40,241 thousand kroons (2,572 thousand euros) (see note 9). The legal persons have re-lent the amounts to Aida Partnerid OÜ and Win Markets OÜ for financing the construction of the shopping mall and the car park respectively. Under the above rehabilitation plan and other agreements, the legal persons will surrender their claims against Aida Partnerid OÜ and Win Markets OÜ so that the investment holding company established by AS Eston Ehitus will become the direct owner of the claims. After this, the receivables will be transformed into investments in the equity of Aida Partnerid OÜ and Win Markets OÜ.

Following the change of the shareholders of Aida Partnerid OÜ and Win Markets OÜ, the companies will be merged. After that, the investment holding company established by AS Eston Ehitus will own 100% of a company that owns the building of an operating shopping mall along with apartments and a car park in Pärnu city centre. The finishing works in the apartments on top of the building will be completed and active marketing of the apartments will start in 2010. The construction of the car park will also be completed in 2010. The bank has made a positive financing decision regarding the amounts required for completing the car park.

Because of the above reasons, the Group's management is of the opinion that the values of trade receivables and loans to legal persons as at the reporting date and at the date of release of this report are not less than their reported carrying amounts.

## NOTE 40. The Parent company's unconsolidated financial statements

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

### Statement of financial position (unconsolidated)

		EEK`000		EUR`000
	31 Dec 2009	31 Dec 2008	31 Dec 2009	31 Dec 2008
<b>ASSETS</b>				
<b>Current assets</b>				
Cash and cash equivalents	17,027	86,294	1,088	5,515
Trade and other receivables	214,505	159,139	13,709	10,171
Prepayments	2,538	11,287	162	721
Inventories	9,865	18,007	630	1,151
Non-current assets held for sale	0	0	0	0
<b>Total current assets</b>	<b>243,935</b>	<b>274,727</b>	<b>15,590</b>	<b>17,558</b>
<b>Non-current assets</b>				
Investments in subsidiaries	259,865	439,717	16,608	28,103
Investment property	0	0	0	0
Trade and other receivables	15,177	127,366	970	8,140
Property, plant and equipment	7,451	9,844	476	629
Intangible assets	7,660	4,571	490	292
<b>Total</b>	<b>290,153</b>	<b>581,498</b>	<b>18,544</b>	<b>37,164</b>
<b>TOTAL ASSETS</b>	<b>534,088</b>	<b>856,225</b>	<b>34,134</b>	<b>54,723</b>
<b>LIABILITIES</b>				
<b>Current liabilities</b>				
Loans and borrowings	133,177	55,361	8,511	3,538
Trade payables	8,189	144,457	523	9,232
Taxes payable	1,454	9,097	93	581
Other payables	64,040	67,846	4,093	4,337
Deferred income	5,283	23,346	338	1,492
Provisions	1,669	816	107	52
<b>Total</b>	<b>213,812</b>	<b>300,923</b>	<b>13,664</b>	<b>19,232</b>
<b>Non-current liabilities</b>				
Loans and borrowings	45,106	206,922	2,883	13,225
Other payables	2,472	2,472	158	158
Provisions	922	2,608	59	167
<b>Total</b>	<b>48,500</b>	<b>212,002</b>	<b>3,100</b>	<b>13,549</b>
<b>TOTAL LIABILITIES</b>	<b>262,313</b>	<b>512,925</b>	<b>16,765</b>	<b>32,782</b>
<b>EQUITY</b>				
Share capital	307,567	307,567	19,657	19,657
Share premium	0	0	0	0
Statutory capital reserve	25,644	20,432	1,639	1,306
Retained earnings	-61,435	15,301	-3,926	978
<b>TOTAL EQUITY</b>	<b>271,776</b>	<b>343,300</b>	<b>17,370</b>	<b>21,941</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>534,088</b>	<b>856,225</b>	<b>34,134</b>	<b>54,723</b>

## Statement of comprehensive income (unconsolidated)

	EEK'000		EUR'000	
	2009	2008	2009	2008
Revenue	43,457	1,032,884	2,777	66,013
Cost of sales	7,540	922,448	482	58,955
<b>Gross profit</b>	<b>35,917</b>	<b>110,436</b>	<b>2,295</b>	<b>7,058</b>
Distribution expenses	4,154	5,182	265	331
Administrative expenses	27,976	45,240	1,788	2,891
Other operating income	454	4,329	29	277
Other operating expenses	1,145	-14,370	73	-918
<b>Operating profit</b>	<b>3,096</b>	<b>78,712</b>	<b>198</b>	<b>5,031</b>
Finance income	27,608	58,010	1,764	3,708
Finance expenses	13,683	16,666	874	1,065
<b>Net finance income</b>	<b>13,925</b>	<b>41,344</b>	<b>890</b>	<b>2,642</b>
<b>Profit before income tax</b>	<b>17,020</b>	<b>120,057</b>	<b>1,088</b>	<b>7,673</b>
Income tax expense	7,837	15,817	501	1,011
<b>Profit for the period</b>	<b>9,183</b>	<b>104,240</b>	<b>587</b>	<b>6,662</b>
Other comprehensive income	0	0	0	0
<b>Total comprehensive income for the period</b>	<b>9,183</b>	<b>104,240</b>	<b>587</b>	<b>6,662</b>



## Statement of cash flows (unconsolidated)

	2009	EEK´000 2008	2009	EUR´000 2008
<b>Cash flows from operating activities</b>				
Cash receipts from customers <sup>1</sup>	866,123	1,367,638	55,355	87,408
Cash paid to suppliers <sup>2</sup>	-844,498	-1,157,034	-53,973	-73,948
Cash paid to and for employees	-50,405	-109,591	-3,221	-7,004
Income taxes paid	-7,837	-15,817	-501	-1,011
Other operating expenses paid	-63	0	-4	0
<b>Net cash used in / from operating activities</b>	<b>-36,680</b>	<b>85,196</b>	<b>-2,344</b>	<b>5,445</b>
<b>Cash flows from investing activities</b>				
Acquisition of property, plant and equipment	0	-578	0	-37
Acquisition of intangible assets	-7,500	0	-479	
Proceeds from sale of property, plant and equipment and intangible assets	459	0	29	0
Acquisition of subsidiaries	-5,040	-194,678	-322	-12,442
Proceeds from disposal of subsidiaries	140,425	0	8,975	0
Loans granted	-59,276	-70,657	-3,788	-4,516
Repayment of loans granted	53,288	43,500	3,406	2,780
Dividends received	1,274	32,769	81	2,094
Interest received	20,402	25,701	1,304	1,643
<b>Net cash from / used in investing activities</b>	<b>144,032</b>	<b>-163,943</b>	<b>9,205</b>	<b>-10,478</b>
<b>Cash flows from financing activities</b>				
Proceeds from loans received	91,023	187,235	5,817	11,966
Repayment of loans received	-221,349	-44,697	-14,147	-2,857
Dividends paid	-30,757	-92,270	-1,966	-5,897
Payment of finance lease liabilities	-267	-585	-17	-37
Interest paid	-15,268	-14,185	-976	-907
<b>Net cash used in / from financing activities</b>	<b>-176,618</b>	<b>35,498</b>	<b>-11,288</b>	<b>2,269</b>
<b>Net cash flow</b>	<b>-69,266</b>	<b>-43,249</b>	<b>-4,427</b>	<b>-2,764</b>
Cash and cash equivalents at beginning of period	86,294	129,543	5,515	8,279
Decrease in cash and cash equivalents	-69,266	-43,249	-4,427	-2,764
Cash and cash equivalents at end of period	17,028	86,294	1,088	5,515

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

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

## Statement of changes in equity (unconsolidated)

EEK`000	Share capital	Share premium	Statutory capital reserve	Retained earnings	Total
<b>At 31 December 2007</b>	<b>307,567</b>	<b>0</b>	<b>7,058</b>	<b>16,705</b>	<b>331,330</b>
Total comprehensive income for the period	0	0	0	104,240	104,240
Dividends declared	0	0	0	-92,270	-92,270
Transfer to capital reserve	0		13,374	-13,374	0
<b>At 31 December 2008</b>	<b>307,567</b>	<b>0</b>	<b>20,432</b>	<b>15,301</b>	<b>343,300</b>
Carrying amount of interests under control and significant influence	-	-	-	-	-439,717
Value of interests under control and significant influence under the equity method	-	-	-	-	549,898
<b>Adjusted unconsolidated equity at 31 December 2008</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>453,481</b>
<b>At 31 December 2008</b>	<b>307,567</b>	<b>0</b>	<b>20,432</b>	<b>15,301</b>	<b>343,300</b>
Total comprehensive income for the period	0	0	0	9,183	9,183
Dividends declared	0	0	0	-30,757	-30,757
Transfer to capital reserve	0	0	5,212	-5,212	0
Business combinations between entities under common control				-49,950	-49,950
<b>At 31 December 2009</b>	<b>307,567</b>	<b>0</b>	<b>25,644</b>	<b>-61,435</b>	<b>271,776</b>
Carrying amount of interests under control and significant influence	-	-	-	-	-259,864
Value of interests under control and significant influence under the equity method	-	-	-	-	519,938
<b>Adjusted unconsolidated equity at 31 December 2009</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>531,850</b>
EUR`000	Share capital	Share premium	Statutory capital reserve	Retained earnings	Total
<b>At 31 December 2007</b>	<b>19,657</b>	<b>0</b>	<b>451</b>	<b>1,068</b>	<b>21,176</b>
Total comprehensive income for the period	0	0	0	6,662	6,662
Dividends declared	0	0	0	-5,897	-5,897
Transfer to capital reserve	0	0	855	-855	0
<b>At 31 December 2008</b>	<b>19,657</b>	<b>0</b>	<b>1,306</b>	<b>978</b>	<b>21,941</b>
Carrying amount of interests under control and significant influence	-	-	-	-	-28,103
Value of interests under control and significant influence under the equity method	-	-	-	-	35,145
<b>Adjusted unconsolidated equity at 31 December 2008</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>28,983</b>
<b>At 31 December 2008</b>	<b>19,657</b>	<b>0</b>	<b>1,306</b>	<b>978</b>	<b>21,941</b>
Total comprehensive income for the period	0	0	0	587	587
Dividends declared	0	0	0	-1,966	-1,966
Transfer to capital reserve	0	0	333	-333	0
Business combinations between entities under common control				-3,192	-3,192
<b>At 31 December 2009</b>	<b>19,657</b>	<b>0</b>	<b>1,639</b>	<b>-3,926</b>	<b>17,370</b>
Carrying amount of interests under control and significant influence	-	-	-	-	-16,608
Value of interests under control and significant influence under the equity method	-	-	-	-	33,230
<b>Adjusted unconsolidated equity at 31 December 2009</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>33,992</b>

## Signatures

The board of Nordecon International AS has prepared management's discussion and analysis, the consolidated financial statements and the profit allocation proposal for 2009.

### Board of directors

Jaano Vink	Chairman of the Board		15 April 2010
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Priit Tiru	Member of the Board		15 April 2010
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The council has reviewed the annual report prepared by the board, including management's discussion and analysis and the consolidated financial statements as well as the appended auditor's report, profit allocation proposal and list of shareholders, and has approved its presentation to the general meeting of the shareholders.

### Council

Toomas Luman	Chairman of the Council		20 April 2010
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Alar Kroodo	Vice-Chairman of the Council		20 April 2010
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Ain Tromp	Member of the Council		20 April 2010
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Andri Hõbemägi	Member of the Council		20 April 2010
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Tiina Mõis	Member of the Council		20 April 2010
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Meelis Milder	Member of the Council		20 April 2010
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## Independent Auditors' Report

### *To the shareholders of AS Nordecon International*

We have audited the accompanying consolidated financial statements of AS Nordecon International, which comprise the consolidated statement of financial position as at 31 December 2009, and the consolidated statement of comprehensive income, the consolidated statement of cash flows and the consolidated statement of changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory notes.

### *Management's Responsibility for the Financial Statements*

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

### *Auditors' Responsibility*

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

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

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

### *Opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of AS Nordecon International as at 31 December 2009, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Tallinn, 15 April 2010

KPMG Baltics AS  
Licence No 17  
Narva mnt 5, Tallinn

Andres Root  
*Authorised Public Accountant*

## Profit allocation proposal

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

	<b>EEK´000</b>	<b>EUR´000</b>
Retained earnings of prior periods	391,020	24,991
Loss for 2009	-45,740	-2,923
<b>Total distributable profits at 31 December 2009</b>	<b>345,280</b>	<b>22,067</b>
<b>Allocations:</b>		
Dividend distribution	0	0
Transfer to capital reserve	0	0
<b>Retained earnings after allocations</b>	<b>345,280</b>	<b>22,067</b>

Jaano Vink Chairman of the Board

15 April 2010

Priit Tiru Member of the Board

15 April 2010

## List of shareholders whose interest exceeds 10%

At the date of the general meeting of the shareholders of Nordecon International AS that approved the annual report (14 May 2010), the list of owners of registered shares who held over 10% of the votes determined by shares was the following:

### 1. AS Nordic Contractors

<b>Registration number</b>	10359185
<b>Address</b>	Liivalaia 13, Tallinn, 10118, Republic of Estonia
<b>Type of share</b>	Ordinary shares
<b>Number of shares</b>	16,507,464
<b>Par value of a share in kroons</b>	10
<b>Year of acquisition of the shares</b>	2002; 2005; 2006