



Corporate governance report 2008

AS Nordecon International 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 AS Nordecon International in 2008 and its compliance with the requirements of CGR. It is recommended that an issuer comply with the CGR or explain the deviations in its corporate governance report. In 2008, AS Nordecon International observed the CGR except where indicated otherwise in this report.

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

Share and share capital

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

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

The shares of AS Nordecon International 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. AS Nordecon International has approximately 1,600 shareholders and the number changes constantly. The majority shareholder is AS Nordic Contractors with an approximately 61 per cent interest. The members of the governing bodies of AS Nordecon International and its subsidiaries hold an additional 8 per cent of the shares.

General meeting

Exercise of shareholder rights

The general meeting of the shareholders is the highest governing body of AS Nordecon International. 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 AS Nordecon International. Under the Articles of Association, shares of different type do not carry rights which might result in unequal treatment of shareholders upon voting. The general meeting has the power to approve the annual report, decide the allocation of profits, amend the Articles of Association, appoint the auditors, and elect the members of the council. A shareholder may attend the general meeting and vote in person or through a proxy carrying relevant written authorisation

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

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

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

The general meeting adopted the following resolutions:

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

All shares issued by AS Eesti Ehitus 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 AS Nordecon International 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 AS Nordecon International, 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 AS Nordecon International.

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

Calling of a general meeting and disclosure of information

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

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

The annual report of AS Eesti Ehitus and the council's written report on the company's annual report were made available as from 25 April 2008 on the issuer's website at <http://www.eestiehitus.ee/> and

on workdays from 9 a.m. to 5 p.m. in the company's registered office at Akadeemia tee 15b, Tallinn. Questions regarding agenda items could be submitted by e-mail to eestiehitus@eestiehitus.ee. Questions, answers, resolutions adopted and statements made at the general meeting were disclosed on the company's corporate website.

In 2008 AS Nordecon International complied with all provisions of the CGR concerning 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 per cent of the votes represented by shares are present. Generally, a resolution will be adopted when more than half of the votes represented are in favour. In compliance the Commercial Code and the Articles of Association, for the adoptions of some resolutions such as the amendment of the Articles of Association; increase or reduction of share capital; the merger, transformation, separation and dissolution of the company; and removal of the members of the council before the expiry of their term of office, at least two thirds of the votes represented at the meeting have to be in favour.

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

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

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

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

Board

Responsibilities of the board

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

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

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

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

Membership and remuneration of the board

Membership of the board

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

Name	Position	Beginning of term of office	Expiry of term of office
Jaano Vink	Chairman of the Board	5 August 2002	31 July 2011
Avo Ambur	Member of the Board, Development Director	7 January 2003	31 December 2008*
Sulev Luiga	Member of the Board, Finance Director	9 July 2007	8 July 2010
Priit Pluutus	Member of the Board, Technical Director	1 October 2007	31 December 2008*
Erkki Suurorg	Member of the Board, Construction Director	1 December 2005	30 November 2008*

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

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

Remuneration of the board

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

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

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

Conflict of interest

Members of the board may not compete with AS Nordecon International without the prior consent of the company's council. Until the date this annual report is authorised for issue, the members of the

board have not notified the council of their direct or indirect participation or intention to participate in the same business activities as the issuer.

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

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

Council

Responsibilities of the council

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

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

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

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

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

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

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

Membership and remuneration of the council

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

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

* On 14 May 2008 the general meeting of AS Eesti Ehitus decided to remove from the council Mait Schmidt and elected in his place Andri Hõbemägi (previously a member of the board and the Director Finance of AS Eesti Ehitus).

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

In 2008, the remuneration of the members of the council of AS Nordecon International totalled 1,443 thousand kroons (92 thousand euros). The corresponding figure for 2007 was 1,080 thousand kroons (69 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 AS Nordecon International 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 AS Nordecon International without the consent of the general meeting or use for personal gain any business offerings made to the issuer. Until the date this annual report is authorised for issue, members of the council have not notified the issuer about any conflicts of interest.

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

Cooperation of the board and the council

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

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

Disclosure of information

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

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

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

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

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

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

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

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

Financial reporting and auditing

Financial reporting

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

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

Auditing

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

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

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