

Corporate governance report 2009

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

Number of ordinary shares outstanding

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 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. 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 with 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 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.