

Corporate governance report 2010

Nordecon AS has observed the Corporate Governance Recommendations (CGR) promulgated by the NASDAQ OMX Tallinn Stock Exchange since the flotation of its shares on the NASDAQ OMX Tallinn Stock Exchange on 18 May 2006. This report provides an overview of the governance of Nordecon AS in 2010 and its compliance with the requirements of CGR. It is recommended that an issuer comply with the CGR or explain any non-compliance in its corporate governance report. In 2010, Nordecon AS observed the CGR except where indicated otherwise in this report.

Nordecon AS (until 31 December 2010 Nordecon International AS, 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 2010	30,756,728
At 31 December 2010	30,756,728

In 2010, 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. 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 AS are listed in the main equity list of the NASDAQ OMX Tallinn Stock Exchange (Baltic Main List) under the ticker symbol NCN1T. The share register is maintained by the Estonian Central Register of Securities in electronic format. With a 53.67% interest the ultimate controlling party is AS Nordic Contractors, which is controlled by the chairman of the council. Other members of the board and council of Nordecon AS hold additionally approximately 4% of the shares.

General meeting

Exercise of shareholder rights

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

Shareholders may send questions about the agenda items before the general meeting to the company's registered address or e-mail address. The company replies to all justified questions before the general meeting on its website or during the meeting when the respective agenda item is discussed.

In 2010 the company was represented at the general meetings by chairman of the board Jaano Vink who attended the meetings and was available throughout the meetings.

Under the articles of association, shares of different type do not carry rights which might result in a disproportionate treatment of shareholders upon voting. All shares issued by Nordecon AS are registered ordinary shares. A shareholder may not demand 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 AS is not aware of any shareholder agreements that restrict 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 AS, a share is considered transferred when the acquirer has been entered in the share register.

In 2010, Nordecon AS complied with the CGR in respect of shareholder rights.

Calling of a general meeting and information disclosed in the notice

The annual general meeting of Nordecon AS took place on 14 May 2010. In addition, there was one extraordinary general meeting which was held on 19 November 2010. Both meetings were held in the Conference Centre of Reval Hotel Olümpia and started at 10.00 a.m.

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

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

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

Information published in respect of candidates for the position of a member of the council includes their participation in the governing bodies (council, board, executive management) of other companies.

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

In 2010, Nordecon AS complied with the CGR in respect of calling general meeting and disclosing information.

Conduct of a general meeting

The working language of a general meeting is Estonian. A general meeting may not be chaired by the chairman of the council or a member of the board. A general meeting is attended by all members of the board, the chairman of the council and, if possible, members of the council and at least one of the auditors. A general meeting is also attended by the candidate for the position of a member of the council if the candidate has not been a member of the council before and the auditor candidate.

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

Allocation of profits is discussed as a separate agenda item and the general meeting adopts a separate resolution on it.

In 2010, Nordecon AS complied with the CGR in respect of conducting general meetings.

Board

Responsibilities of the board

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

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

- Analyses the risks inherent in the company's operations and financial targets (including environmental, competitive and legal risks)
- Prepares relevant internal rules and regulations

- Prepares forms and instructions for the preparation of financial statements
- Establishes control and reporting systems

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

In 2010, the board and council of Nordecon AS exchanged information in accordance with effective requirements. The board informed the council of the company's performance and financial position on a regular basis.

Membership and emoluments of the board

Membership of the board

The council appoints and recalls 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.

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

In 2010, the board had the following members:

Name	Position/Area of responsibility	Beginning of term of office	Expiry of term of office
Jaano Vink	Chairman of the Board General management of the company	5 August 2002	31 July 2011
Priit Tiru	Member of the Board Foreign operations of the company and other Group entities	5 January 2009	30 October 2010

Based on a resolution adopted by the council, Priit Tiru who was responsible for the company's foreign operations 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 council decides the remuneration of the members of the board based on an evaluation of their activities. The council evaluates a board member's performance by taking into account the board member's responsibilities and activity, the activity of the entire board as well as the company's financial position, current financial performance and future prospects and compares the latter with the corresponding indicators of other companies in the same industry.

The service fee includes a 10% fee for maintaining the confidentiality of business secrets and adhering to the prohibition on competition. Under the service agreement, a member of the board may receive the following additional monetary emoluments whose payment is at the discretion of the council:

- Additional remuneration for strong operating results
- Additional remuneration for exceeding the agreed operating results
- Benefits for adhering to the prohibition on competition after the expiry of the service agreement (up to twelve-fold average monthly service fee together with additional remuneration, decided at the discretion of the council)
- Benefits for early termination of the service agreement (six- to twelve-fold average monthly service fee together with additional remuneration). Termination benefits depend on the board member's previous performance and will not be provided if it clearly damages the company's interests.

The company does not have long-term benefit programs for members of the board (pension programs) and has not issued share options to members of the board. Nor are the emoluments of the board linked to changes in the company's share price.

In 2010, the emoluments of the members of the board of Nordecon AS including social security tax totalled 3.1 million kroons (0.2 million euros). The corresponding figure for 2009 was 3.3 million kroons (0.2 million euros).

In 2009 the board had three members. The emoluments comprise only the remuneration calculated in accordance with the service contract and the termination benefits of one board member. As the company has not achieved its operating targets, board members have not been provided and have not received any additional remuneration.

Conflict of interest

Members of the board may engage in other duties and work assignments only with the consent of the council.

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

Members of the board are required to inform other members of the board and the chairman of the council of any business offerings made to them, their close family members or another person related to them that are related to the company's business activity. The council decides the performance of a transaction between the company and a member of the board, a board member's close family member or a person related to a board member, if the transaction is significant for the company, and determines the terms of such transactions.

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 2010, Nordecon AS complied with the CGR in respect of the activities of the board.

Council

Responsibilities of the council

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

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

The council adopts its decisions at meetings that have the sole authority to:

- Approve the strategy
- Approve long-term development plans
- Approve budgets
- Appoint members of the board and the chairman of the board and recall 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 conduct legal disputes with members of the board on behalf of the company

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 chairman of the council communicates with the board, particularly the chairman of the board, on a regular basis in order to discuss matters related to the company's strategy, business operations and risk management.

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 and acquisition, divestment or dissolution of a company
- Opening and closing of foreign branches and agencies
- Transfer and encumbrance of immovable properties and registered movables (except cars)
- Non-current asset transfers and 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 2010, the council of Nordecon AS had nine meetings.

Membership and emoluments of the council

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

According to the articles of association, the council 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 2010, the council had the following members:

Name	Position	Beginning of term of office	Expiry of term of office
Toomas Luman	Chairman of the Council, representative of AS Nordic Contractors	9 January 2006	13 May 2015 ¹
Alar Kroodo	Vice Chairman of the Council, representative of small shareholders	9 January 2006	13 May 2015 ¹
Andri Hõbemägi	Member of the Council, representative of AS Nordic Contractors	14 May 2008	13 May 2013
Ain Tromp	Member of the Council, representative of small shareholders	9 January 2006	13 May 2015 ¹
Tiina Mõis	Member of the Council, independent	9 January 2006	13 May 2015 ¹
Meelis Milder	Member of the Council, independent	9 January 2006	13 May 2015 ¹

¹ The powers of the members of the council were extended for another term of five years at a general meeting held on 14 May 2010.

On deciding the remuneration of the council and its payment procedure, the general meeting considers the nature and scope of the duties of the council as well as the financial position of the company. Depending on the nature of the work of the council, shareholders may also take into account the specific nature of the work of the chairman of the council.

On 1 April 2006, the general meeting of the shareholders of Nordecon AS adopted a resolution on the remuneration of the council. A council member's service fee is 10,000 kroons (639 euros) per month. The vice chairman's service fee is 20,000 kroons (1,278 euros) per month and the chairman's service fee is 30,000 kroons (1,917 euros) per month. Council members are not entitled to any additional remuneration or termination benefits.

In 2010, the remuneration of the members of the council of Nordecon AS totalled 1.4 million kroons (0.1 million euros). The corresponding figure for 2009 was also 1.4 million kroons (0.1 million euros).

According to the CGR, half of the members of the council have to be independent. The council of Nordecon AS has two independent members. The composition of the council of Nordecon AS has been approved by the general meeting of Nordecon AS and to date there has been no criticism of the independence of the council. Accordingly, Nordecon AS is not in compliance with the above requirement of CGR.

Conflict of interest

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

A member of the council may not vote at a meeting in matters concerning provision of consent for a transaction between Nordecon AS and the member of the council or a similar conflict of interest involving a party related to the member of the council. A member of the council may not compete with Nordecon AS

without the consent of the general meeting or use for personal gain any business offerings made to the company.

Until the date this annual report is authorised for issue, members of the council have not notified the company of any conflicts of interest.

In 2010, Nordecon AS complied with the CGR in respect of the activities of the council or has explained any non-compliance.

Cooperation of the board and the council

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

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

In 2010, the board and the council cooperated actively in approving the Group's development plan and new strategic objectives for the period 2010-2013. The board manages the company in accordance with the strategic instructions of the council and discusses strategic management issues with the council on a regular basis.

In 2010, Nordecon AS complied with the CGR in respect of the cooperation of the board and the council.

Public disclosure of information

In disseminating information, Nordecon AS endeavours to treat all shareholders as equally and fairly as possible and to communicate all significant events without any undue delay. Observance of the equal treatment principle does not revoke the right to postpone the disclosure of inside information or the right to provide unpublished inside information to persons entitled to it. The main information channels that the company uses for notifying shareholders, investors and other stakeholders are the information system of the NASDAQ OMX Tallinn Stock Exchange and the company's website.

In respect of undisclosed 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 2010 the threshold for notifying of significant construction contracts was 50.0 million kroons (3.2 million euros). In 2010 Nordecon AS made 33 stock exchange announcements that were released concurrently in Estonian and in English via the information system of the NASDAQ OMX Tallinn Stock Exchange.

Violations of the disclosure requirements

In 2010 the company was sanctioned for one instance of non-compliance with the information disclosure requirements. Nordecon AS published the notice of calling the extraordinary general meeting in the information system of the NASDAQ OMX Tallinn Stock Exchange on the same day but a few hours later than it was published in the printed version of the national daily *Eesti Päevaleht*. The Listing and Supervisory Committee of the NASDAQ OMX Tallinn Stock Exchange found that by that Nordecon AS had breached the information disclosure requirements established for issuers and issued a caution to Nordecon AS.

Disclosure of information on the company's website

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

- A brief description of the company
- Description of the security and trading statistics
- 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
- Membership of the council and the board
- Information on the company's auditor
- Corporate governance report
- Financial calendar

Meetings with investors and financial analysts

Meetings with investors are organised as and when requested by investors. The company exchanges information with journalists and analysts with due care and deliberation. In communicating with an analyst, the company refrains from actions that might compromise the independence of the analyst or the company. The company does not arrange meetings with analysts or presentations for investors directly before the date on which a financial report (interim or annual report) is disclosed.

The presentations used at meetings with investors are published through the information system of the stock exchange and are also made available on the company's website. In 2010, 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 does 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 2010, Nordecon 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 AS. The consolidated financial statements of Nordecon 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 the OMX Tallinn Stock Exchange, the Estonian Commercial Code and other applicable legislation.

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

In 2010, the company's council did not deem it necessary to invite the company's auditor to the meeting that approved the annual report because the auditor had 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 discloses in the annual report financial information on companies that have not been consolidated but in which the company has a significant interest (note 13) and transactions with shareholders (note 37).

Auditing

The external auditor of Nordecon 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 AS organised a new tender for appointing an auditor for the period 2008-2010. The general meeting decided that KPMG Baltics OÜ should be appointed as auditor of the company and the board signed an audit services agreement with KPMG Baltics OÜ for the financial years 2008, 2009 and 2010. Therefore, in the reporting period, the

company did not have to observe the requirements of Article 6.2 of the CGR that regulate the activities of the company's managing and governing bodies, the general meeting and the auditor upon the appointment of a new auditor by the general meeting.

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

In the reporting period, the auditor's services included the agreed audit services as well as tax advice, tax training, and translation services and a review of the company's financial statements on the company's merger with its subsidiaries. Altogether, the fees paid to the auditor for services provided in 2010 totalled 0.6 million kroons (0.04 million euros).

In 2010, Nordecon AS complied with the CGR in respect of financial reporting and auditing.