

## Corporate governance report 2011

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 2011 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 2011, Nordecon AS observed the CGR except where indicated otherwise in this report.

## General meeting

### Exercise of shareholder rights

The general meeting is the highest governing body of Nordecon AS. General meetings are annual and extraordinary. The powers of the general meeting are 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 business days 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 that are included in the announcement of the general meeting. The company replies to all relevant questions before the general meeting on its website or during the meeting when the respective agenda item is discussed. In 2011 shareholders did not ask any questions about the agenda items before the general meeting. All questions and answers are available on the website until the information on the next general meeting is published.

In 2011 the company was represented at the general meeting by chairman of the board Jaano Vink who attended the meeting and was available to the shareholders during the meeting.

The company's articles of association do not grant different rights to shares of different type, 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 issue of a share certificate for a registered ordinary share. A shareholder may not demand that a registered share be exchanged for a bearer share. The shares are freely transferable and may be pledged. The board of Nordecon AS is not aware of any shareholder agreements that restrict transfer of the shares. Upon the death of a shareholder, the share will transfer to the shareholder's heir. From the point of view of Nordecon AS, a share is considered transferred when the acquirer has been entered in the share register.

In 2011 Nordecon AS complied with the subsections of section 1.1 of CGR that relate to shareholder rights.

## Calling of a general meeting and information to be published

The annual general meeting of Nordecon AS took place on 12 May 2011. The meeting was held in the conference centre of Radisson Blu Hotel in Tallinn and it started at 4.30 pm. The meeting was called by the board. There were no extraordinary general meetings in the reporting period.

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

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

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

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

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

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

In 2011 Nordecon AS complied with the subsections of section 1.2 of CGR that relate to calling a general meeting and information to be published.

## Conduct of a general meeting

The working language of a general meeting is Estonian. A general meeting may not be chaired by the chairman of the council or a member of the board. In the reporting period, the general meeting was chaired by a person not related to the company.

A general meeting is attended by all members of the board, the chairman of the council and, where possible, members of the council and at least one of the auditors. In 2011, the general meeting was attended by the chairman of the board Jaano Vink, the chairman of the council Toomas Luman, members of the council Alar Kroodo and Andri Hõbemägi and authorised public accountant Andres Root. A general meeting is also attended by a candidate for a member of the council if the candidate has not been a member of the council before and the auditor candidate.

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

In 2011 Nordecon AS complied with the subsections of section 1.3 of CGR, except for 1.3.3. The company has not considered it practicable to make the annual general meeting available to observers and participants via the Internet.

## 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 Group's parent company and all entities belonging to the same Group as the parent observe effective legislation.

In 2011, 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.

In 2011 Nordecon AS complied with the subsections of section 2.1 of CGR that relate to responsibilities of the board.

## Composition and remuneration of the board

### Composition of the board

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

The board or the council determines the area of responsibility of each member of the board, specifying the duties and powers of each member of the board in as much detail as possible, and outlines the basis 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.

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

In 2011, the board had the following members:

Name	Position/Area of responsibility	Beginning of term of office	Expiry of term of office
Jaano Vink	<b>Chairman of the Board</b> General management of the company	5 August 2002	31 July 2014
Avo Ambur	<b>Member of the Board</b> Management of sales and pre-construction activities	1 January 2011	31 December 2013
Marko Raudsik	<b>Member of the Board</b> Management of the Buildings segment	1 January 2011	31 December 2013
Erkki Suurorg	<b>Member of the Board</b> Management of the Infrastructure segment	1 January 2011	31 December 2013

### 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 council decides the remuneration of the members of the board based on an evaluation of their performance. The council evaluates a board member's performance by taking into account the board member's responsibilities and performance, the performance 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 observing the prohibition on competition. Under the service agreement, a member of the board may be eligible for the following additional monetary incentives:

- Performance pay for achieving the targets set for the financial year. The basis for performance pay is consolidated EBITDA (operating profit plus amortisation and depreciation expense) before the effect of the performance pay of members of the management board. Any EBITDA that exceeds the target EBITDA is linkable to a coefficient. Performance pay is calculated by multiplying the service fee with the coefficient. The coefficient does not allow assigning board members performance pay that exceeds the difference between the target EBITDA and actual EBITDA.

Board members will not be eligible for performance pay if the target for the year is not achieved and/or performance pay was assigned based on data that proved materially incorrect or inaccurate.

- Benefits for observing prohibition on competition after the expiry of the service agreement (for a member of the board 6-fold and for the chairman of the board 12-fold average monthly service fee together with performance pay).

Payment of benefits is justified because board members are subject to a broad-based prohibition on competition that restricts their activities during the period for which the benefits are paid.

- Termination benefits payable on the expiry of the service agreement (six-fold average monthly service fee together with performance pay).

A board member will not be eligible for termination benefits if the service agreement is terminated at the request of the board member, if the board member is removed due to breach of law or the service agreement, or if the board member's activities have caused direct damage to the company.

The company does not have long-term incentive programs for members of the board (pension programs) and has not issued share options to members of the board. Board members do not receive any significant non-monetary benefits. Nor is the remuneration of the board linked to changes in the company's share price.

In 2011 the remuneration of the members of the board of Nordecon AS including social security charges totalled 316 thousand euros (2010: 199 thousand euros).

In 2011 Nordecon AS complied with the subsections of section 2.2 of CGR, except for 2.2.7, that relate to membership and remuneration of the board. The company does not disclose the individual remuneration of each member of the board because in the current competitive situation this constitutes sensitive information.

### **Conflicts of interest**

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

Members of the board may not compete with Nordecon AS without the prior consent of the company's council. In the reporting period members of the board did not ask the council's permission for engaging in competing activities and did not do it otherwise.

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, which concern the company's business. The council decides the performance of a transaction between the company and a member of the board, a board member's close family member or a person related to a board member, if the transaction is significant for the company, and determines the terms of such transactions.

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

A member of the board or an employee may not demand or take money or other benefits from a third party in connection with their work and may not provide unlawful or baseless benefits to a third party in the name of the company. During the reporting period neither the board nor, as far as the board knows, the employees infringed this principle.

In 2011 Nordecon AS complied with the subsections of section 2.3 of CGR that relate to conflicts of interest.

## **Council**

### **Responsibilities of the council**

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

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

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

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

The chairman of the council maintains regular contact with the board, particularly the chairman of the board and discusses with them issues related to the company's strategy, business activity and risk management. The chairman of the board has to notify the chairman of the council promptly of any significant event, which may

affect the company's development and management. The chairman of the council conveys the information to the council and, where necessary, calls an extraordinary meeting of the council.

The work of the council is organised by the chairman. The chairman of the council determines the agenda of council meetings, chairs council meetings, monitors the effectiveness of the work of the council, organises swift delivery of information to 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.

In 2011 Nordecon AS complied with the subsections of section 3.1 of CGR that relate to responsibilities of the council.

#### **Composition and remuneration of the council**

A person may be elected as a member of the council if the person has the knowledge and experience required for participating in the work of the council. Matters that need to be considered on electing a member of the council include the nature of the activities of the council and the company, potential conflicts of interest and, where necessary, the age of the person. The 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 has three to seven members. The exact number is decided by the general meeting. Members of the council are elected by the general meeting for a term of five years. Members of the council elect a chairman from among themselves. In 2011, the council had the following members:

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

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

On 1 April 2006, the general meeting of Nordecon AS adopted a resolution on the remuneration of the council. A council member's service fee is 639 euros per month. The vice-chairman's service fee is 1,278 euros per month and the chairman's service fee is 1,917 euros per month. Council members are not eligible for any additional fees or termination benefits.

In 2011, the remuneration of the members of the council of Nordecon AS including relevant social security charges totalled 92 thousand euros. The corresponding figure for 2010 was also 92 thousand euros.

In 2011 Nordecon AS complied with the subsections of section 3.2 of CGR that relate to council members' responsibilities.

#### **Conflicts of interest**

Members of the council avoid conflicts of interest. In their activity as members of the council, they 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.

In 2011 there were no conflicts of interest in council members' work or relations with the company.

In 2011 Nordecon AS complied with the subsections of section 3.3 of CGR that relate to council members' responsibilities.

## 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 company's operation.

In 2011 the board and the council worked closely in monitoring completion of the company's development plan and achievement of the company's strategic objectives for 2010-2013. The board observes the council's strategic instructions and discusses strategic management issues with the council on a regular basis.

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

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

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

In 2011 Nordecon AS complied with the subsections of sections 4.1 to 4.3 of CGR that relate to cooperation between the board and the council.

## Disclosure of information

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

In disseminating information, Nordecon AS 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 at [www.nordecon.com](http://www.nordecon.com).

The company discloses information in accordance with the rules of the NASDAQ OMX Tallinn Stock Exchange and the provisions of the Estonian Securities Act. In 2011 the company's threshold for notifying of significant construction contracts was 3.2 million euros. In 2011 Nordecon AS made 22 stock exchange announcements that were released concurrently in Estonian and in English via the information system of the NASDAQ OMX Tallinn Stock Exchange.

Nordecon AS has disclosed on its website and via a separate announcement in the information system of the stock exchange its financial calendar, which outlines the dates on which information will be released during the year (including annual and interim reports and the notice of the annual general meeting). In addition, the company has made available on its website the information (specific reports and data) listed in section 5.3 of CGR.

### **Meetings with investors and financial analysts**

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

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

In 2011 Nordecon AS complied with chapter 5 of CGR that relates to disclosure of information, except for the following section.

The company did not disclose the dates and places of meetings with analysts and presentations organised for analysts, investors or institutional investors on its website, in advance as required by section 5.6, so that shareholders could participate. Compliance with this requirement often involves technical difficulties.

The company is convinced that by making the information available on its website and by being open and approachable in its shareholder relations it has provided adequate alternatives and conditions, which ensure equal availability of information to all shareholders. The company does not disseminate inside information at such meetings but uses financial information and presentations that have already been released.

## 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 as adopted by the European Union (IFRS EU). The financial statements are prepared and submitted for approval in conformity with the Estonian Accounting Act, the rules of the OMX Tallinn Stock Exchange, the Estonian Commercial Code and other applicable legislation.

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

In the reporting period 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 interest (note 13) and transactions with shareholders (note 38).

In 2011 Nordecon AS complied with the subsections of section 6.1 of CGR, except for 6.1.1, that relate to financial reporting.

In 2011, the council did not deem it necessary to invite the auditor to the meeting that approved the annual report because the auditor had issued an unqualified independent auditor's report on the consolidated financial statements.

### Auditing

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

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

The auditor's responsibilities and fee and the timeframe of services provided are set out in the audit services agreement signed with the auditor. Under the agreement the auditor performs the audit in accordance with International Standards on Auditing (Estonia). The auditor can express an opinion on the company's activities without any constraints imposed by the company.

In the reporting period, the auditor's services comprised the agreed audit services as well as tax advice, tax training, translation services and work involving agreed-upon procedures. Altogether, the fees paid to the auditor for services provided in 2011 totalled 46 thousand euros.

In 2011 Nordecon AS complied with the subsections of section 6.2 of CGR, except for 6.2.6, that relate to auditing.

In 2011 the council did not deem it necessary to request a written overview of audit-related matters, as suggested in subsection 6.2.6 of CGR, because the auditor issued an unqualified independent auditor's report on the financial statements. The council will consider the need for requesting such an overview in the next financial year.