

## Corporate governance report

Nordecon AS has observed the Corporate Governance Code (CGC) promulgated by the NASDAQ 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 2017 and its compliance with CGC. It is recommended that an issuer comply with CGC or explain any non-compliance in its corporate governance report. In 2017, Nordecon AS observed CGC unless 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 set out 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 allocation of profits, amend the articles of association, appoint the auditors and elect 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 should allow the largest possible number of shareholders to attend 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 notice of the general meeting. The company replies to all relevant questions before the general meeting on its website or during the meeting when the relevant agenda item is being discussed. In 2017, shareholders did not ask any questions about the agenda items either before the annual general meeting or the extraordinary general meeting. All questions and answers are available on the website until information about the next general meeting is published.

At the annual general meeting of 2017, the company was represented by three members of the board who attended the meeting and were available to shareholders during the meeting. Chairman of the board, Jaano Vink, gave a presentation on the company's financial performance and answered shareholders' questions. At the extraordinary general meeting of 2017, the company was represented by chairman of the council Toomans Luman and member of the council Andri Hõbemägi.

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 2017, Nordecon AS complied with the subsections of section 1.1 of CGC 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 24 May 2017. The meeting was held in the Conference Centre of the Radisson Blu Hotel Olümpia in Tallinn and it started at 10.00 am. The meeting was called by the board of Nordecon AS.

On 2 October 2017, an extraordinary general meeting of Nordecon AS took place, which was held in the Conference Centre of the Radisson Blu Hotel Olümpia in Tallinn and started at 10.00 am. The meeting was called by the board of Nordecon AS. The agenda item of the extraordinary general meeting was an additional profit distribution.

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 and other documents relevant for adopting resolutions at the general meeting will be made available to the shareholders. All relevant 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 a significant change (e.g. amendment of articles of association, extraordinary transactions). The company enables shareholders to review information about the questions shareholders have asked about 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 and is required 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 2017, Nordecon AS complied with the subsections of section 1.2 of CGC 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 a member of the council or the board. In the period, the general meeting was chaired by a person not connected with the company.

As a rule, 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. 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. In 2017, the annual general meeting was attended by chairman of the board Jaano Vink, members of the board Priit Luman and Erkki Suurorg and member of the council Andri Hõbemägi. The extraordinary general meeting was attended by chairman of the council Toomas Luman and member of the council Andri Hõbemägi.

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

In 2017, Nordecon AS complied with the subsections of section 1.3 of CGC, except for 1.3.3 and 1.3.2. The company did not consider it practicable to make the annual general meeting available to observers and participants via the Internet. Chairman of the council Toomas Luman and members of the board Avo Ambur and Maret Tambek and the auditor of Nordecon AS did not attend the annual general meeting. The issuer's board members did not attend the extraordinary general meeting.

## 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. The board acts in the best interests of the company and all its shareholders and undertakes to ensure that the company develops 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 business.

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

- analyses the risks inherent in the company's operations and financial targets (including environmental, competition and legal risks);
- prepares relevant internal rules and regulations;



- develops the forms and instructions for the preparation of financial statements required for making management decisions;
- ensures operation of the 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 Group comply with governing laws and regulations.

In 2017, the board and council of Nordecon AS exchanged information in accordance with relevant requirements. The board informed the council of the Group's performance and financial position on a regular basis.

In 2017, Nordecon AS complied with the subsections of section 2.1 of CGC that relate to responsibilities of the board.

### Composition and remuneration of the board

#### Composition of the board

The council appoints and removes 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 of cooperation between members of the board. A member of the board may be a member of the council of another Group entity. The chairman of the council signs a service contract with a member of the board.

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

In 2017, the board had the following members:

Name	Position/area of responsibility	Beginning of term of office	End of term of office
Erkki Suurorg	<b>Member of the Board</b> General management of Nordecon AS and the Group and management of the construction operations of Nordecon AS	1 January 2011	31 March 2018
Priit Luman	<b>Member of the Board</b> Management of the Group's foreign operations	1 May 2017	30 April 2020
Maret Tambek	<b>Member of the Board</b> Management of the financial and support services functions of Nordecon AS	1 May 2017	30 April 2020
Ando Voogma	<b>Member of the Board</b> Management of the sales and pre-construction operations of Nordecon AS	1 August 2017	31 July 2020
Jaano Vink	<b>Chairman of the Board</b> General management of Nordecon AS and the Group	5 August 2002	31 July 2017
Avo Ambur	<b>Member of the Board</b> Management of the sales and pre-construction operations of Nordecon AS	1 January 2011	31 July 2017

#### Remuneration of the board

A member of the board is paid a monthly service fee, which is fixed in the service contract. The council decides the remuneration of members of the board based on an appraisal of their work. The council appraises a board member's work by taking into account the board member's responsibilities and activities, the activities of the entire board as well as the company's financial position, current financial performance and future prospects and, if necessary, compares these 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 contract, a member of the board may also be eligible for the following additional monetary incentives:

- Performance-related pay for achieving the targets set for the financial year. Depending on the board member's area of responsibility, the basis for performance-related pay is consolidated EBITDA or the EBITDA for a market/entity of the Group (operating profit plus amortisation and depreciation expense)



before the effect of the performance-related pay of members of the board. Each targeted EBITDA level is assigned a coefficient. Performance-related pay is calculated by multiplying the service fee with the coefficient.

Board members are not eligible for performance-related pay if the targets for the year are not achieved or performance-related pay was assigned based on data that proved (e.g. after the audit) materially inaccurate.

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

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

- Termination benefits payable on the expiry of the service contract (for a member of the board six-fold and for the chairman of the board 12-fold average monthly service fee together with performance-related pay).

A board member is not eligible for termination benefits if the service contract is terminated at the board member's request, the board member is removed due to breach of the law, the board member breaches the service contract, or the board member's activities have caused direct damage to the company. Nor are any termination benefits paid when the parties agree to extend a board member's service contract for another term of office.

Under a share option plan approved by the general meeting in 2014, the then members of the board were granted share options. Under the option agreements that were signed, the chairman of the board could acquire 291,380 shares and members of the board could acquire 250,000 shares in Nordecon AS. An option may be exercised when three years have passed since the signature of the option agreement but not before the company's general meeting has approved the company's annual report for 2016 in accordance with the procedure specified in the option agreement and the terms and conditions of the option plan. The share options may not be transferred. Exercise of options by members of the board is linked to achievement of the Group's EBITDA target for 2016 (from 4,491 thousand euros to 11,228 thousand euros).

The annual general meeting which convened on 24 May 2017 approved some changes to the share option plan by which the term for exercising a share option was extended and the conditions for exercising the options granted to persons who at the grant date were members of the board were amended. An option may be exercised within 15 months after the general meeting has approved Nordecon AS's annual report for 2016. Depending on the time an option is exercised, its exercise by the board member is linked to the achievement of the Group's EBITDA target for 2016 (from 4,491 thousand euros to 11,228 thousand euros) or the Group's EBITDA target for 2017 (from 4,132 thousand euros to 8,264 thousand euros).

In 2017, the service fees of the members of the board of Nordecon AS amounted to 1,001 thousand euros and associated social security charges totalled 330 thousand euros. In 2016, the corresponding figures were 350 thousand euros and 116 thousand euros plus expenses on the provision for board members' performance-related pay, recognised based on the Group's performance indicators, of 323 thousand euros including social security charges.

In 2017, Nordecon AS complied with the subsections of section 2.2 of CGC, except for 2.2.7, that relate to the composition and remuneration of the board. The company does not disclose the individual remuneration of each member of the board because it believes the information has little significance and is highly sensitive in an environment of stiff competition.

#### **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 request 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 council. In the reporting period, members of the board did not request the council's permission for engaging in competing activities.

Board members 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 other persons connected with 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 connected with a board



member, if the transaction is significant for the company, and determines the terms of such a transaction.

In the reporting period, members of the board, their family members and persons connected with 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 is aware, the employees breached this policy.

In 2017, Nordecon AS complied with the subsections of section 2.3 of CGC 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 assesses the company's financial position and risk management systems as well as whether the board's activities are lawful 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 related 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 and discusses with them issues related to the company's strategy, business operations and risk management.

The chairman of the board has to notify the chairman of the council promptly of any significant event that 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 council members, ensures that council members have sufficient time for preparing a resolution and reviewing the information received and represents the company in relations with the company's board. In 2017, the council had five meetings in which all council members participated. In addition, four times resolutions were adopted electronically; in those cases all council members participated.

In 2017, Nordecon AS complied with the subsections of section 3.1 of CGC that relate to the 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 composition 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 number is decided by the general meeting. Council members are elected by the general meeting for a term of five years. Members of the council elect a chairman from among themselves.

In 2017, the council had the following members:

<b>Name</b>	<b>Position</b>	<b>Beginning of term of office</b>	<b>End of term of office</b>
Toomas Luman	Chairman of the Council, representative of AS Nordic Contractors	9 January 2006	20 May 2020



Andri Hõbemägi	Vice-chairman of the Council, representative of AS Nordic Contractors	25 May 2013	24 May 2018
Vello Kahro	Member of the Council, representative of AS Nordic Contractors	20 May 2015	20 May 2020
Sandor Liive	Member of the Council, independent	20 May 2015	20 May 2020
Meelis Milder	Member of the Council, independent	9 January 2006	20 May 2020

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.

According to a resolution adopted by the general meeting on 24 May 2017, from 1 July 2017 the chairman's basic monthly service fee is 9,000 euros, the vice-chairman's basic monthly service fee is 3,000 euros and the basic monthly service fee of other council members is 1,200 euros. In addition, based on a resolution adopted by the general meeting on 28 May 2012, the company has created a performance-related pay system for the chairman and vice-chairman of the council. Performance-related pay is linked to achievement of Nordecon AS's targets for the financial year and it is calculated and paid on the same basis as the performance-related pay of the members of the board of Nordecon AS. The performance-related pay of the chairman of the council and the vice-chairman of the council may not exceed two thirds and one third respectively of the performance-related pay calculated for a member of the board.

In 2017, the service fees of the members of the council of Nordecon AS amounted to 167 thousand euros and associated social security charges totalled 55 thousand euros. In 2016, the corresponding figures were 138 thousand euros and 45 thousand euros plus expenses on the provision for performance-related pay, recognised based on the Group's performance indicators, of 61 thousand euros including social security charges.

In 2017, Nordecon AS complied with the subsections of section 3.2 of CGC that relate to council members' responsibilities.

#### Conflicts of interest

Members of the council avoid conflicts of interest. In their activity as council members, 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 connected with 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 2017, Nordecon AS complied with the subsections of section 3.3 of CGC that relate to council members' responsibilities.

#### Cooperation of the board and the council

The company's board and council cooperate in ensuring continuous and effective information exchange. Members of the board participate in council meetings that take place at least quarterly for reviewing the company's financial 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 2017, the board and the council worked closely in monitoring implementation of the company's development plan and achievement of the company's strategic objectives for 2016-2020. 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 via the chairman of the council on a regular basis about all significant circumstances relating to the company's operation, business planning, 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 them. Such information including all significant details is conveyed to the council via the chairman of the council 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 confidentiality rules, which ensure control over movement of price-sensitive information.

In 2017, Nordecon AS complied with the subsections of sections 4.1 to 4.3 of CGC that relate to cooperation between the board and the council.

## Application of the diversity policy

Under subsection 4 of section 24<sup>2</sup> of the Estonian Accounting Act, a large undertaking whose securities that carry voting rights have been admitted for trading on a regulated securities market of Estonia or another contracting state (party to the EEA agreement) has to describe in its corporate governance report the diversity policy applied on its board and higher governing body and its results during the reporting period. If no diversity policy has been applied during the period, the reasons for this should be explained in the corporate governance report.

In 2017, the Group did not apply a diversity policy because both managers and employees are selected based on the Group's interests and people are hired and appointed based on their education, skills and prior work experience. However, the Group observes the policy of not discriminating against any candidate based on their gender or on any other basis.

## 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 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 and investors are the information system of the NASDAQ OMX Tallinn Stock Exchange and the company's website [www.nordecon.com](http://www.nordecon.com). In those channels, information is released simultaneously in Estonian and in English.

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 2017, the company's threshold for notifying of significant construction contracts was 3.2 million euros. In 2017, Nordecon AS made 41 stock exchange announcements that were released concurrently via the information system of the NASDAQ OMX Tallinn Stock Exchange and the company's website.

Nordecon AS has disclosed its financial calendar, which outlines the dates or weeks of information release during the year (including the release of the annual report, interim reports and the notice of the annual general meeting), on its website and in a separate announcement in the information system of the stock exchange. In addition, the company has made available on its website information about specific reports and data as required by section 5.3 of CGC.

### **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 could 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) was released.

The presentations used at meetings with investors are published in 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 2017, Nordecon AS complied with chapter 5 of CGC that relates to disclosure of information, except for the following sections:

The company did not disclose the dates and places of meetings with analysts and the 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 believes that by making the information available on its website and by being open and approachable in its shareholder relations it has created adequate alternatives and conditions which ensure that information is equally available to all shareholders. The company does not disseminate inside information at meetings with investors and financial analysts 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 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 signed by the council.

The annual report that has been approved by the board and the council is 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 financial statements financial information on companies that have not been consolidated but in which the company has a significant interest (note 12) and transactions with shareholders (note 35).

In 2017, Nordecon AS complied with the subsections of section 6.1 of CGC, except for 6.1.1, that relate to financial reporting.

The council did not deem it necessary to invite the auditor to the meeting of the company's council that approved the annual report as required by subsection 6.1.1 because the independent auditor had issued an unqualified report on the consolidated financial statements.

### Auditing

Together with the notice of the annual general meeting, the council makes available to the shareholders its assessment of the services provided by the auditor in the past financial year. The assessment includes the services provided 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 meets the members of the audit committee of Nordecon AS at least once a year.

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 addition to audit services, in 2017 we purchased from the audit firm tax advice, advice in the preparation of sustainability reporting, legal advice and translation of financial statements. Altogether, in 2017 the fees Nordecon AS paid to the audit firm totalled 51 thousand euros.

The auditor provided the audit committee formed by the council with a written memorandum on the company's audit of 2017, the auditor's findings and other significant matters that were discussed with the board.

In 2017, Nordecon AS complied with the subsections of section 6.2 of CGC that relate to auditing.