

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 Tallinn Stock Exchange on 18 May 2006. This report provides an overview of the governance of Nordecon AS in 2021 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 2021, 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 the 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 would 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 2021, shareholders did not ask any questions about the agenda items before the general meeting. All questions and answers are available on the website until information about the next general meeting is published.

All shares issued by Nordecon AS are registered ordinary shares. A shareholder may not demand the 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 the 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 2021, 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

In 2021, the board of Nordecon AS proposed to the shareholders that the resolutions of the general meeting be adopted without calling a meeting. Shareholders had to cast their votes by 9 a.m. on 1 June 2021.

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 Tallinn Stock Exchange and on the company's website. The notice includes information about where the annual report and other documents relevant to 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.

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 about 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 2021, 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.

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.

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

In 2021, Nordecon AS complied with the subsections of section 1.3 of CGC that relate to the conduct of a 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 the functioning of the control and reporting systems.

The board observes the 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 all applicable laws and regulations.

The board and council of Nordecon AS exchanged information in 2021 in accordance with relevant requirements. The board informed the council of the group's performance and financial position on a regular basis. In 2021, Nordecon AS complied with the subsections of section 2.1 of CGC that relate to the 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 2021, the board had the following members:

	Position/area of responsibility	Beginning of term of office	End of term of office
Gerd Müller	Chairman of the Board Overall management of Nordecon AS and the group	8 January 2018	7 January 2024
Priit Luman	Member of the Board Construction operations and foreign markets	1 May 2017	30 April 2023
Maret Tambek	Member of the Board Financial management and support services	1 May 2017	30 April 2023

Remuneration of the board

Information about the remuneration of the board is disclosed in the *Remuneration report*.

In 2021, Nordecon AS complied with the subsections of section 2.2 of CGC, that relate to the composition and remuneration of the board.

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 to engage 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 to engage 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 should be treated as a conflict of interest.

A member of the board or an employee may not demand or accept cash 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 2021, 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. The council had four meetings in 2021. In addition, on one occasion resolutions were adopted electronically. Meetings and the electronic voting were attended by all members of the council.

In 2021, 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.

The general meeting decides the remuneration of the council 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 work of the council, shareholders may take into account the specific features of the work of 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, the vice-chairman's basic monthly service fee is €3,000 and the basic monthly service fee of other council members is €1,200. 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 the achievement of Nordecon AS's targets for the financial year and 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.

The annual general meeting that convened on 20 May 2020 decided to reduce the remuneration of the members of the council by 20% and set the chairman's basic monthly service fee at €7,200, the vice-chairman's basic monthly service fee at €2,400 and other council members' basic monthly service fee at €960, effective from 1 June 2020.

The service fees of the members of the council of Nordecon AS for 2021 amounted to €150 thousand and associated social security charges totalled €50 thousand (2020: €165 thousand and €54 thousand, respectively).

In 2021, the council had the following members:

Name	Position/area of responsibility	Beginning of term of office	End of term of office	Remuneration 2021 (€'000)	Remuneration 2020 (€'000)
Toomas Luman	Chairman of the Council, representative of AS Nordic Contractors	9 January 2006	20 May 2025	86	95
Andri Hõbemägi	Vice-chairman of the Council, representative of AS Nordic Contractors	25 May 2013	24 May 2023	28	31
Vello Kahro	Member of the Council, independent	20 May 2015	20 May 2025	12	13
Sandor Liive	Member of the Council, independent	20 May 2015	20 May 2025	12	13
Andre Luman	Member of the Council, representative of AS Nordic Contractors	20 May 2020	20 February 2025	12	7
Meelis Milder	Member of the Council, independent	9 January 2006	20 May 2020	-	6

In 2021, 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.

In 2021, 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 2021, the board and the council worked closely in monitoring the implementation of the company's development plan and the achievement of the company's strategic objectives. 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 the 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 promptly 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 of movement of information, particularly price-sensitive information.

In 2021, 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 24² 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 to 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.

The group did not apply a diversity policy in 2021 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 strives 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 Tallinn Stock Exchange and the company's website 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 Tallinn Stock Exchange and the provisions of the Estonian Securities Act. In 2021, the company's threshold for notifying of significant construction contracts was €3.2 million. Nordecon AS made 38 stock exchange announcements in 2021, which were released concurrently via the information system of the Nasdaq 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.

There were no meetings with investors or analysts in 2021.

In 2021, Nordecon AS complied with chapter 5 of CGC that relates to disclosure of information.

Financial reporting and auditing

Financial reporting

The 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 11) and transactions with shareholders (note 36).

In 2021, 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 the 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. The fees Nordecon AS paid to the auditors in 2021 totalled €64 thousand.

The auditor provided the audit committee formed by the council with a written memorandum on the company's audit of 2021, the auditor's findings and other significant matters that were discussed with the board.

In 2021, Nordecon AS complied with the subsections of section 6.2 of CGC that relate to auditing.