

**OVERVIEW OF REPORTS ON THE COMPLIANCE OF ISSUERS OF
TALLINN STOCK EXCHANGE WITH CORPORATE GOVERNANCE CODES**

in 2009



Financial Supervision Authority 2010

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Summary

The Financial Supervision Authority carried out the analysis of reports on compliance with the Corporate Governance Code (CGC) for the third time. Overviews of CGC compliance reports for 2006, 2007 and 2008 are available on the website of the Financial Supervision Authority.

CGC is primarily meant to be complied with by companies, the shares of which are traded on the Estonian regulated market.¹ Compliance with CGC follows the principle “comply or explain”. Accordingly, compliance with CGC is not compulsory, but failure to comply must be explained. While the obligation to present the Corporate Governance report stemmed so far for issuers from the rules of the NASDAQ OMX Tallinn Stock Exchange,² then in future law will directly provide this obligation.³ Pursuant to § 24² of the Accounting Act that entered into force on 1 July 2009, the presentation of reports on compliance with Corporate Governance code is compulsory for accounting periods that begin on or after 1 July 2009.

The objective of presentation of Corporate Governance reports is to strengthen the rights of shareholders and to make the governance of issuers more understandable. It manifests mainly through equal treatment, availability of sufficient information and organisation of the governance of a company in the most economically efficient manner through prudent and loyal conduct of managers.

The Financial Supervision Authority considers that the issuers can either present Corporate Governance reports or explain the failure to present them in a more detailed manner and supply shareholders with more thorough information on issuers. The Financial Supervision Authority notes that there were no significant changes in Corporate Governance reports of 2009 in comparison with Corporate Governance reports submitted by issuers in former years. Several issuers had adopted a formal attitude and the reasons for non-compliance were insufficiently explained or totally omitted. The Financial Supervision Authority discovered also factual errors in reports, and therefore it suggests that in future the issuers should verify more prudently all facts presented in reports.

As issuers have a legal obligation to present Corporate Governance reports for 2010, the shortcomings revealed in Corporate Governance reports of 2009 will be discussed in more detail below, in order to provide the issuers with specific guidance for drafting their future Corporate Governance reports.

Main shortcoming in Corporate Governance reports:

- Issuers have not adequately assessed their management practices against all CGC recommendation and have made a selective presentation. Therefore, shareholders may draw a wrong conclusion that the level of compliance with CGC recommendations is higher than it actually is.
- Issuers do not refer in their Corporate Governance reports to specific CGC recommendations that are not complied with, but present only a general description of their management practices, making it thus more difficult for a reader to understand completely, which CGC recommendation are not complied with.
- Issuers have not fully or sufficiently explained in Corporate Governance reports as to which circumstances have caused the difference in their management practices from CGC recommendations.
- There are shortcomings in the disclosure of required information. Instead of directly disclosing the information required by CGC, the reports refer to other documents or sections of the management report, making thus the finding of information difficult and time-consuming.
- Issuers could significantly improve the availability on their website of information specified in point 5.3 of the CGC for shareholders. Besides the fact that this information is not presented on websites of several issuers, it has to be noted that this information is often presented in a manner that is not very logical. Sometimes the information is presented only in English and there is also an issuer that has no website.
- Notices of general meetings also have shortcomings, in particular when considering the recommendations of point 6.2.1 of the CGC.

¹ Except investment funds incorporated as a private limited company.

² Point 3.12 “Requirements to issuers” of these rules, available: <http://www.nasdaqomxbaltic.com/files/tallinn/oigusaktid/alates18082008/NE-18-08-2008-est-clean.pdf>

³ Pursuant to § 24² of the Accounting Act that entered into force on 1 July 2009, the presentation of reports on compliance with Corporate Governance code is compulsory for accounting periods that begin on or after 1 July 2009.

Recommendations for drafting future Corporate Governance reports

Based on § 24² of the Accounting Act and considering the former practice in drafting Corporate Governance reports, the Financial Supervision Authority suggests that the issuers should focus on the following when drafting their Corporate Governance reports:

1. Corporate Governance report should refer to the Corporate Governance code that the issuer applies.
2. An issuer should present in its Corporate Governance report a description of the organization of work of its management and supervisory bodies (general meeting, Management Board, Supervisory Board) and their committees (Audit Committee and other committees and commissions, if available):
 - Procedures for assembling and organization of a general meeting; performance of shareholder's rights; possibility to get acquainted with the agenda before the meeting; procedures for publishing relevant information before and after the general meeting, etc.
 - Information on general meetings (including special general meetings) organized during the reporting period, in a manner that a reader would be able to assess the level of compliance with CGC by the issuer in this respect: dates and agenda of general meetings; members of the Management Board and of the Supervisory Board who participated in the general meeting; information on whether the auditor or the candidate auditor participated in the general meeting; information on the publication of materials related to the agenda before the general meeting (which documents were published and how it was possible to examine them); information on whether the shareholders had the possibility to present questions on the agenda before the general meeting and whether these questions were published (if there were no questions presented, this should also be noted), etc.
 - Competencies, tasks and the organization of work of the Management Board; procedures for the election or appointment and resignation or withdrawal of members; remuneration of members of the Management Board, including criteria for the payment of performance pay; description of the system of bonuses; procedures for the payment of severance pay; other benefits paid to members of the Management Board; systems or methods used for detecting and avoidance of members' conflicts of interests; procedures for making transactions between the issuer and a member of the Management Board or a person close or associated to the member of the Management Board; information on whether the Management Board is entitled to issue and repurchase shares, etc.
 - Information on the Management Board of the issuer in the current reporting period, in a manner that a reader would be able to assess the level of compliance with CGC by the issuer in this respect: members of the Management Board and their areas of responsibility; information on whether employment contracts have been signed with the members of the Management Board or explanation of reasons in case such contracts are missing; salary, performance pay and benefits paid to members of the Management Board; information on whether members of the Management Board participate in Management or Supervisory Boards of other issuers (Chairman of the Supervisory Board), transactions of members of the Management Board or persons close to them with the issuer, etc.
 - Competencies, tasks and the organization of work of the Supervisory Board; procedures for the election of its members; remuneration of members of the Supervisory Board; systems or methods used for detecting and avoidance of conflicts of interests, etc.
 - Information on the Supervisory Board of the issuer in the current reporting period, in a manner that a reader would be able to assess the level of compliance with CGC by the issuer in this respect: members of the Supervisory Board, specifying the members who are independent according to the criteria mentioned in the annex of CGC; payments made to members of the Supervisory Board, presenting separately any additional payments and

- benefits as well as other advantages; information on whether any member of the Supervisory Board has participated in less than half of Supervisory Board meetings and reasons thereof; conflicts of interests occurred during the reporting period and their solutions or a confirmation that there has been no conflicts of interests.
- Collaboration between the Supervisory Board and the Management Board, including procedures for ensuring the meeting of confidentiality requirements, conditions for the presentation of information to the Supervisory Board by the Management Board and content of such information.
 - Competencies, tasks, organization of work and composition of the Audit Committee as well as other committees or commissions, if available, etc.
3. An issuer should specify the information in its Corporate Governance report that is available on the issuer's website, and inform the reader respectively of part of this information is available on the website only until a specific date (e.g. questions presented by shareholders before the general meeting and answers given to those questions).
 4. An issuer should explain in its Corporate Governance report the procedures for the election of an auditor and for the auditing of annual report. If an auditor who audited the issuer's annual report in the previous accounting period was elected also for the new reporting period during the reporting period, the information should be provided on whether the Supervisory Board has assessed the auditor's activities and how it is possible to get access to this assessment. If a new auditor was elected during the reporting period, the information should be presented on whether the Supervisory Board collected data on the candidate auditor and whether this data was disclosed together with the notice for the assembly of the general meeting. Corporate Governance report should elaborate whether the issuer's auditor participated in the meeting of the Supervisory Board where the annual report was examined.
 5. Corporate Governance report should include a clear confirmation that management practices of the issuer are in conformity with the CGC. This confirmation may be given separately for each CGC recommendation⁴ or as a general confirmation⁵. The confirmation should be given for a specific reporting period.
 6. If the issuer has failed to follow any CGC recommendation, it should clearly state in its Corporate Governance report the specific CGC recommendation that was not followed during the reporting period (or was not continuously followed) and present a thorough and reasoned explanation of justifications (it is not enough to just mention the non-compliance).
 7. Corporate Governance report should include information on persons who have a qualifying holding⁶ in the issuer (it should be mentioned if these persons are associated to the issuer, e.g. a company owned by a member of the Management Board).
 8. Corporate Governance report should include information on owners of securities that provide specific controlling rights and describe these rights; if there are no such rights, the respective confirmation should be presented.
 9. Corporate Governance report should include information on all restrictions of or agreements on voting rights and on the existence of preference shares with a voting right, including the restriction of the voting right with a certain percentage or the number of votes, period of using the voting right, and systems whereby pecuniary rights related to securities and the ownership of securities are separated from each other in cooperation with the issuer.
 10. An issuer should describe in its Corporate Governance report the procedures for amending the issuer's articles of association.
 11. Corporate Governance report should include a description of the issuer's internal control and risk management systems that are related to the drafting of annual report.

4 E.g. in the section of the Corporate Governance report that describes the assembling and organization of a general meeting, the issuer confirms that it has followed the recommendations provided in the CGC Chapter "General Meeting" or in points 1.1-1.3 of CGC during the reporting period

5 In this case the issuer should confirm in the report that it has followed all CGC recommendation during the reporting period. Still, the issuer should describe its management practices in the report.

6 The definition of a qualifying holding is provided in § 9 of the Securities Market Act.

Development of the Corporate Governance code in the European Union

Estonian Corporate Governance code is a part of the Corporate Governance code of the European Union and it develops together with the EU code. This Section provides a description of main documents on Corporate Governance of the European Union that are related to the issues discussed in this document.

Directive 2006/46/EC, important from the aspect of the framework of Corporate Governance of the European Union, was transposed into Estonian law by amendments to the Commercial Code, the Securities Market Act and Accounting Act, which entered into force in 2009. The main objective of this directive is to oblige companies, the trade in whose securities is allowed on the regulated securities market of a member state of the European Economic Area, to submit the annual Corporate Governance report and to ensure increased transparency in off- balance sheet arrangements and transactions with related parties. The objective of a Corporate Governance report is to strengthen, through disclosure, the framework of Corporate Governance, and in describing Corporate Governance practice the report proceeds from the principle "comply or explain".

In March 2009, the European Corporate Governance Forum published a position on the bases for the remuneration of managers of listed companies,⁷ according to which the most suitable manner for regulating the aforementioned issue would be the adoption of provisions of relevant directives. The Forum found that, although the bases for determination of payable remunerations and respective rates should depend on relevant decisions of companies and their shareholders, the remunerations should still be related to certain objective criteria, such as:

- Rates of remuneration generally payable to managers;
- Real growth of the company;
- Profit earned and added value created for the company and its shareholders.

Also, shares granted to managers under the framework of long-term incentive plans should vest only if the performance of managers is clearly assessable in the long term. Severance pay for managers should not exceed two years remuneration and should not be paid if the termination is for poor performance.

In April 2009, the European Commission issued the recommendation 2009/385/EC⁸ and its explanatory communication⁹ complementing the earlier recommendations by the Commission (2004/913/EC¹⁰ and 2005/162/EC¹¹) as regards the procedure for the remuneration of members of administrative, management or supervisory bodies of listed companies.

The objective of this recommendation is to expand the list of criteria that serve as the basis for the remuneration of all members of the administrative, management or supervisory bodies of listed companies. While the objective of earlier recommendations was, above all, to ensure the disclosure of remuneration policy and its transparency, the new recommendations also provide instructions for determining the components of remuneration of managers and, among other things, for supervision by shareholders. The recommendation reflects, to a large extent, the statements of the European Corporate Governance Forum related to the bases for remuneration of managers of listed companies.

For example, it is recommended that:

- The salary policy should be proportional within a company, namely by benchmarking the remuneration of members of management with that of other members of management and the (senior) employees in the company;
- Severance pay (golden parachutes) should be subject to a maximum limit and should not be payable in case of failure to perform duties;
- There should be a balance between fixed and variable pay and subjects in order to reinforce the link between pay and performance. The basic salary should be sufficiently large to ensure that remuneration would not fully depend on bonuses;

7 Statement of the European Corporate Governance Forum, http://ec.europa.eu/internal_market/company/docs/ecgforum/ecgf-remuneration_en.pdf

8 Commission's recommendation 2009/385/EÜ, <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2009:120:0028:0031:ET:PDF>

9 Commission's communication, <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2009:0211:FIN:ET:DOC>

10 Commission's recommendation 2004/913/EÜ, <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2004:385:0055:0059:ET:PDF>

11 Commission's recommendation 2004/162/EC, <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2005:052:0051:0063:ET:PDF>

- The payment of variable pay is subject to the performance of predetermined and measurable performance criteria. Variable pay should be related to work results and the payment of the principal part should be preceded by a certain period of time, in order to allow for the taking into account of the risk period serving as the bases for the payment of remuneration. The awarding of variable pay should be subject to performance criteria, which should bring to the forefront the longer-term performance of financial institutions and take into consideration risk, cost of capital and liquidity during the assessment of work results. Further more, financial institutions should reclaim variable pay that was paid on the basis of data that is subsequently proven to have been manifestly inaccurate.

Since May 2009, the European Corporate Governance Forum has discussed the following issues:

- Cross-border voting. Discussions focus on the possibility to obligate the intermediaries to use their voting right or to provide respective guidance. This issue is currently open to discussion.
- Protection of the rights of minor shareholders. The European Corporate Governance Forum has stated in respect of the proposal to increase the efficiency of protection of the rights of minor shareholders that the Corporate Governance infrastructure and the principle "comply or explain" that form the basis for Corporate Governance do not function well in case there is a controlling shareholder.¹² A survey commissioned by the European Commission was performed in 2009 on the supervision of the compliance with Corporate Governance;¹³ this survey concluded that there were certainly some shortcomings in applying the principle "comply or explain" in practice. There were shortcomings primarily in the following areas: providing reasons for non-compliance and supervision performed by shareholders. The solution would be to increase the efficiency of supervision over market participants and auditors. This could be

achieved by the full and qualitative disclosure of data and by the enforcement of the principle "comply or explain" in case of institutional investors. The Forum has elaborated an idea to provide the shareholders with special investigation rights. Still, it is acknowledged that this idea should be further considered, as there is a risk of abuse of those rights.

The European Corporate Governance Forum is presently preparing a communication on the issues of the protection of minor shareholders' rights, focusing primarily on transactions between related parties (including in the context of mergers, take-over of shares, etc).

- "Empty voting" and transparency of a holding. According to the principle generally recognized in corporate law of Member States, the ultimate risk is borne by shareholders and therefore they have the right to make important decisions in respect of the company. The validity of this presumption is questioned today, because various financial measures allow the separation of a voting right from the direct financial interest of a shareholder in the company. Empty voting means the voting without the ownership of a security, i.e. voting by a shareholder that has no financial interest in the company in respect of which he performs his voting right. Controversy, this is the hidden ownership where the participant in the general meeting does not own shares but is entitled to exert influence on decision-making in a manner as if he were a shareholder. Hidden ownership is often used for avoiding disclosure requirements.

Empty voting and hidden ownership have an increasing effect on important decisions made by shareholders and on companies that are mostly listed companies. Thus, the European Corporate Governance Forum and also the academic society consider that this issue deserves special attention, in order to protect the Corporate Governance in Europe and markets where the shares of European listed companies are traded.

¹² According to the knowledge of the Financial Supervision Authority, 9 Estonian issuers (AS Ekspress Grupp, AS Järvevana, AS Merko Ehitus, Nordecon International AS, Premia Foods AS, AS Tallinna Kaubamaja, AS Trigon Property Development, AS Tallinna Vesi, AS Viisnurk) had a controlling shareholder at the time when this overview was drafted.

¹³ Study on Monitoring and Enforcement Practices in Corporate Governance in the Member States, September 2009.

The Forum proposes to insert a certain provision to Commercial Codes, i.e. a presumption that shareholders who participate in the general meeting have an economic interest that corresponds to the votes represented by shares. Subsequently the following principle should be established: if the shareholder has fully or partially waived his economic interest, he must inform the market thereof above certain limits. Shareholders who fail to comply with this requirement may be considered as providers of false information. The Second Company Directive¹⁴ provides the principle that a company is not allowed to vote with treasury stock. Thus, companies may be interested in lending their treasury stock, in order to earn profit from otherwise non-profitable investments. As the decision to lend the treasury stock is made by the Management Board, it can use the lending of treasury stock in order to influence the decision of the general meeting. With an aim to avoid this consequence, the Forum proposes to establish a rule that the company and its subsidiaries may lend their treasury stock only in case there is a provision in the lending agreement that prohibits the voting with these shares. A company should disclose the extent of lending the treasury stock of the company and its subsidiaries before the commencement of the general meeting. The Forum acknowledges the need for further discussions in this respect.

Other discussions related to Corporate Governance in Europe:

- Increasing the role of auditors. At present, auditors have at European level an obligation to give only a formal confirmation that the company is fulfilling its obligation to present the Corporate Governance report. In order to ensure that these reports include more accurate information, the role of the auditors should be increased in a manner that they also confirm the accuracy of certain facts disclosed in Corporate Governance reports. If the auditor has only a task to confirm certain facts by using a standardized method, such confirmations should not entail the requirement for auditors to provide value assessments.
- Extending the rights of shareholders. Rights of shareholders should be extended in order to give them the possibility to discuss the applied Corporate Governance in the general meeting. To that end, the competence of a general meeting should be respectively increased. Shareholders should be allowed to express their opinion on principles of Corporate Governance that are applied by the Management Board. This proposal has already been followed by one Member State.
- Enforcement of institutional investors' disclosure obligation. Investors should be required to disclose their investment and voting principles as well as voting minutes in respect of public limited companies included in their investment portfolio. European Commission integrated these recommendations into the Action Plan 2003 as a medium-term objective, but disregarded it later on due to the lack of public support. Today, it might be appropriate to reconsider this proposal. A significant part of institutional investors does not disclose detailed information on their voting principles and supervisory activities, also in Member States where the requirement to disclose this information has been introduced. Besides, there is an idea that the European Commission could promote the enforcement of Corporate Governance for institutional investors in Member States. This would also follow the principle of "comply or explain" and contribute to the longer-term objective that investors exert prudence in performing their rights and make informed decisions.
- Commission report on the functioning of the Transparency Directive 2004/109/EC. The revision of the functioning of the Transparency Directive has provided the conclusion that the disclosure requirements in respect of material voting right and financial instruments that provide access to the voting right should be harmonized as well as reporting requirements applied to issuers in the broader context of governance simplified.¹⁵

14 The Second Council Directive 77/91/EEC on coordination of safeguards which, for the protection of the interests of members and others, are required by Member States of companies within the meaning of the second paragraph of Article 58 of the Treaty, in respect of the formation of public limited liability companies and the maintenance and alteration of their capital, with a view to making such safeguards equivalent (OJ 1977, L 26, p. 1).

15 Report from the Commission to the Council, the European Parliament, the European Economic and Social Committee and the Committee of the Regions – Operation of Directive 2004/109/EC on the harmonisation of transparency requirements in relation to information about issuers whose securities are admitted to trading on a regulated market. COM(2010)243, 27.5.2010.

Estonian legal framework

Principles of the general framework of Corporate Governance are provided primarily by the Commercial Code and the General Part of the Civil Code Act. Special rules are provided by legislation that regulates the relevant area, for example the Securities Market Act, the Insurance Activities Act and the Credit Institutions Act. In addition to legislation mentioned above, the information disclosed by issuers in annual reports on Corporate Governance is regulated by the Accounting Act.

In order to ensure proper and legal operations of the securities market, Chapter 15 of the Securities Market Act provides requirements for the rules and regulations that the operator of the securities market must approve.

Corporate Governance Code, which was enacted by the Financial Supervision Authority and enforced by the NASDAQ OMX Tallinn Stock Exchange as a part of stock exchange rules and regulations, entered into force on 1 January 2006. According to paragraph 2.3 of § 127 of the Securities Market Act, rules and regulations of the market operator shall provide main rights and obligations of the issuer of a security that has been taken for trading, towards the market operator, market participants and other issuers of securities that have taken for trading. Pursuant to point 3.12 of Section "Requirements to issuers" of the NASDAQ OMX Tallinn Stock Exchange rules, issuers of shares and bonds shall disclose the compliance with the CGC in Corporate Governance reports.

The new redaction of the Accounting Act, which entered into force on 6 April 2009, regulates in greater detail the requirements for the content of the management report of an issuer of securities traded on a regulated securities market and provides for the obligation of an issuer to add to its management report a Corporate Governance report as a separate section. § 24² regulating the obligation to add the

Corporate Governance report and its content, entered into force on 1 July 2009, are applicable to reporting periods beginning on 1 July 2009 or later.

In accordance with Accounting Act § 24², a Corporate Governance report must be prepared in a manner that enables a qualified and interested person to obtain relevant information on the activities of an accounting entity with regard to the management principles applicable in the company and must contain at least the following information:

- Reference to the Corporate Governance code applied by the accounting entity;
- Detailed and reasoned explanation as to why the accounting entity has failed to comply with the Corporate Governance code;
- Description of the staff and work organisation of management and supervisory bodies as well as their committees;
- Qualifying holdings in accordance with the provisions of § 9 of the Securities Market Act;
- Holders of securities granting specific rights of control and a description of their rights;
- All restrictions or agreements regarding the right to vote and the existence of the right to vote for a preferred share, including the restriction of the right to vote with a certain holding in percentage or number of votes; deadlines or systems applicable to the exercising of the right to vote, in the case of which the pecuniary rights related to securities and the possession of securities have been separated from each other in cooperation with the company;
- The provisions and rules established by legislation for election, appointment, resignation and withdrawal of members of the Management Board of the company;
- The provisions and rules established by legislation for amending the articles of association of the company;
- Authorities of members of the Management Board of the company, including the authorities to issue and repurchase shares;
- Description of the main features of internal control and risk management systems in connection with the process of preparing annual report.

According to point 6.2.3 of the CGC, upon organizing the rotation of auditors, the issuer shall comply with guidelines of the Financial Supervision Authority of 24 September 2003, "Rotation of auditors of certain entities under state supervision". Henceforth, issuers shall comply with paragraph 3 of § 59 of the new Authorised Public Accountants Act (entered into force on 8 March 2010), which provides that the rotation of auditors of stock exchange issuers shall take place at least after each five years.

Proposals for amending the Corporate Governance code

Six years has passed since the adoption of the CGC. Meanwhile, some of principles presented in that document have been provided by law, especially by the Commercial Code. Therefore the CGC had to be revised and detailed rules, which had already been enforced by imperative legal provisions, removed. Reasoned proposal for amending the CGC is presented in **Annex 2** of this analysis.

According to paragraph 7 of § 207 of the Authorised Public Accountants Act, a provision entered into force on 1 July 2010 that stipulates that the company whose securities are allowed to be trades on the securities market in the meaning of the Securities Market Act shall establish the Audit Committee (paragraph 1.1 of § 13 and paragraph 1.1 of § 99 of the Authorised Public Accountants Act). In order to facilitate the compliance with legal requirements, the Financial Supervision Authority wishes to provide an instruction on the Audit Committee of a listed company. This instruction is aimed at assisting the Management Board of a listed company in establishing, remunerating and organizing the work of the Audit Committee, as well as members of the Audit Committee in performing their tasks. The instruction may become a part of the CGC document. Framework of principles of the functioning of the Audit Committee that form the basis for the establishment of that instruction is presented in **Annex 3** of this analysis.

Readers are welcomed to send their opinions on Annexes 2 and 3 to the following e-mail: info@fi.ee.

Corporate Governance reports 2009

The obligation to submit the Corporate Governance report applies to those companies whose securities are traded or admitted to trading on the NASDAQ OMX Tallinn Stock Exchange during the period that the annual report covers.

As at the end of 2009, the main list of the NASDAQ OMX Tallinn Stock Exchange was comprised of the shares of 15 companies, and the additional list included the shares of one company. The trading with the shares of AS Eesti Telekom was terminated on 13 January 2010; therefore the audited annual report of the company for 2009 does not include the Corporate Governance report. Also the data of AS Norma is not presented in this overview, because the trading with its shares has been terminated.

Although the shares of AS Premia Foods were listed on the NASDAQ OMX Tallinn Stock Exchange only since 5 May 2010, the issuer prepared the Corporate Governance report for 2009 and therefore the report of this issuer is also covered by this overview.

Thus, this overview covers the Corporate Governance reports of the following companies:

Arco Vara AS
 AS Baltika
 AS Ekspress Grupp
 AS Harju Elekter
 AS Järvevana
 AS Merko Ehitus
 Nordecon International AS
 Olympic Entertainment Group AS
 AS Premia Foods
 AS Silvano Fashion Group
 AS Tallink Grupp
 Tallinna Kaubamaja AS
 AS Tallinna Vesi
 AS Trigon Property Development
 AS Viisnurk

This overview discusses the information disclosed by issuers in their Corporate Governance reports, following in its chapters the design of the CGC.

The submission and content of the Corporate Governance report is regulated by point 5.4 of the CGC. It sets out that the Corporate Governance report shall be submitted as a chapter of the management report included in the annual report.

The Corporate Governance reports submitted by issuers as part of their annual reports of 2009 were of a very different level. Main shortcomings were similar to those of previous years, both in respect of CGC recommendations and the compliance with requirements for preparing the report.

The main problem in the reports lies in the selective presentation of the principle "comply or explain" for the sections of the CGC. Although the issuers specify certain CGC sections that are not observed, they often fail to specify other CGC sections that are not observed either. Hence, the reader of the report may be led to falsely believe that all unspecified sections are observed, though no positive assurance to this effect is provided in the report. Some issuers have failed to describe in their reports their management practices and stated only those CGC sections that are not being complied with. However, the Financial Supervision Authority considers that this does not meet the requirements provided by point 5.4 of the CGC to describe the management practices of an issuer, including their compliance with CGC requirements.

In order to ensure the unambiguous understanding of information presented in the report, the Financial Supervision Authority suggests to provide a clear confirmation in the report that the issuer complied with all CGC recommendations in 2009, excluding with those that are clearly mentioned in the report, and to provide a clear and adequate explanation of reasons for non-compliance, or to describe the compliance practices of the issuer in respect of all CGC recommendations, making it clear, which recommendations the issuer has complied with and which not, and to provide an explanation of reasons for non-compliance. The Financial Supervision Authority considers that a report should include negative confirmations, but in that case, for the sake of clarity, the negative confirmation should be included for all CGC recommendations, if appropriate.

Similarly to previous overviews of Corporate Governance reports, this overview does not cover all Corporate Governance practices provided by the CGC, but only those to which the Financial Supervision Authority wishes to focus more attention in order to harmonize and improve the practices.

For drafting this overview, the Financial Supervision Authority has:

- Verified whether the issuers have published their Corporate Governance reports according to the requirements and whether the issuers have stated in their reports those CGC sections that are not complied with as well as provided reasons for non-compliance for each section (formal check of the presentation of information);
- Analyzed the adequacy and clarity of information presented in Corporate Governance reports, i.e. whether the Financial Supervision Authority considers the reasons for non-compliance with the CGC that were presented in Corporate Governance reports as sufficiently justified (subjective check of the presentation of information).

The Financial Supervision Authority has not systematically checked for drafting this overview whether the information presented by issuers in their Corporate Governance reports is accurate, i.e. whether the issuer truly complies with CGC recommendations and whether the reasons for non-compliance with CGC recommendations presented in Corporate Governance reports are accurate. Responsibility for the accuracy of information presented in the Corporate Governance report lies with the issuer's Management Board. The Financial Supervision Authority has randomly checked the accuracy of information presented in those reports, comparing it with the information published on issuers' websites, in the information system of the NASDAQ OMX Tallinn Stock Exchange and in the Commercial Register.

General summary of Corporate Governance reports

Arco Vara AS

Pursuant to the report, the management of the company confirm the compliance with CGC recommendations or provides the reasons for non-compliance. The report describes the issuer's management practices by following the structure of the CGC. The compliance with CGC recommendation is presented as a description, without a referral to specific CGC sections. In addition, the report fails to mention the specific CGC sections that are not complied with.

AS Baltika

Pursuant to the report, the company is mostly in compliance with CGC recommendations. The report provides the reasons for non-compliance with the recommendations with which the company is currently failed to comply. The report clearly mentions the respective CGC sections and explains the reasons for non-compliance. In addition, a summary of the company's management practices is included.

AS Ekspress Grupp

Pursuant to the report, the company takes the CGC recommendations mostly into account in its activities. Some recommendations are partly complied with for practical reasons. The report specifies the sections that are not complied with. Nevertheless, the former wording makes it difficult to understand what is meant by the expression that the company "takes the CGC recommendations mostly into account in its activities". Also, it is not clear whether all other CGC recommendations are complied with or whether they are complied with only partly. If some of the CGC recommendations that are not mentioned in the report are only partly complied with, the report should clearly mention, which part is complied with, and provide reasons for partly compliance. Non-compliance for practical reasons is not an adequate explanation. The report includes a summary of management bodies.

AS Harju Elekter

Pursuant to the report, the company complies with most of the CGC recommendations when preparing its annual report. The report specifies the CGC recommendations that are not followed with, as well as reasons for non-compliance. Nevertheless, the report lacks the summary of the issuer's management practices.

AS Järvevana

Pursuant to the report, it specifies the CGC sections that are not complied with by the company for either technical, economic or other reasons. Still, the report lacks a clear confirmation that the CGC recommendations are complied with in all other aspects. The summary of the issuer's management practices presented in the report is not sufficient to assess their compliance with the CGC. The report includes no specific referral to CGC recommendations that are not complied with.

AS Merko Ehitus

Pursuant to the report, it specifies the CGC sections that are not complied with by the company for either technical, economic or other reasons. The report includes the chapters of the CGC and describes under these chapters the compliance or non-compliance by the company with recommendations of the respective CGC chapter. Still, the information is presented as a description, without any referrals to specific CGC sections that are not complied with.

AS Nordecon International

The issuer confirms in its report that it complied with the CGC recommendations in 2009, unless otherwise stated in the report. The report describes the management of the company in 2009 and its compliance with CGC recommendations, but does not refer to specific CGC sections that are not complied with.

Olympic Entertainment Group AS

The report confirms that the company is in compliance with the CGC. The non-compliance with some of CGC recommendations is explained in the report together with referrals to specific CGC sections (mentioned in the report in cursive). Nevertheless, the Financial Supervision Authority considers that the issuer does not comply with certain other CGC recommendations that are not mentioned in the report. The issuer presents thus for readers of the report a false picture of issuer's Corporate Governance practices.

AS Premia Foods

Pursuant to the report, the company is in compliance with most of the CGC requirements. The report specifies the requirements that are not complied with and provides the relevant reasons. The report refers to specific CGC requirements that are not complied with.

AS Silvano Fashion Group

Pursuant to the report, the company is principally in compliance with all CGC principals. The report presents an overview of those principals that are not complied with in a full extent and provides the reasons for partial non-compliance. The report specifies the concrete CGC sections that are not complied with. Still, the Financial Supervision Authority considers that the issuer did not comply with certain other CGC recommendations that are not mentioned in the report. The issuer presents thus for readers of the report a false picture of issuer's Corporate Governance practices.

AS Tallink Grupp

Pursuant to the report, the company is in compliance with the CGC, unless otherwise stated in the report. The report refers to specific CGC sections that are not complied with. Though, the Financial Supervision Authority considers that there are other specific CGC recommendations besides those mentioned in the report that the issuer is not in compliance with.

AS Tallinna Kaubamaja

Pursuant to the report, it describes the company's management principles and provides an explanation of CGC sections that are not complied with. The report lacks a clear confirmation that the rest of CGC sections are complied with. There is a random note included when discussing various CGC chapters, mentioning that the principles of the specific chapter were complied with.

AS Tallinna Vesi

The report confirms that the company was in compliance with the CGC throughout the year 2009. Still, the separate chapter under the heading "Compliance declaration of AS Tallinna Vesi" includes the note that the company is in compliance with the vast majority of CGC recommendations. The company does not comply with a few recommendations that are mentioned in the report together with explanations. The report refers to specific CGC sections that are not complied with by the company.

AS Trigon Property Development

Pursuant to the report, the company is mostly in compliance with CGC recommendations. The report clearly provides the specific CGC sections that are not complied with, and presents the reasons for non-compliance. Still, the Financial Supervision Authority considers that there are also other CGC recommendations besides those mentioned in the report that are not complied with by the issuer.

AS Viisnurk

The report confirms that the company is mostly in compliance with CGC recommendations. It explains the reasons for non-compliance of certain recommendations. The report refers to specific CGC sections that are not complied with, and provides relevant explanations.

I • Exercise of the shareholders' rights and holding of general meetings

CGC 1.1.1. *I—/ The Issuer shall enable the shareholder to present questions on items mentioned in the agenda, including prior to the day of the General Meeting. In the notice calling the General Meeting the Issuer shall include the address or e-mail address to which the shareholder can send questions. The Issuer shall guarantee a response to reasonable questions either at the General Meeting, during the discussion of the corresponding topic, or before the holding of the General Meeting, giving the shareholder enough time to examine the response. If possible, the Issuer shall give its responses to questions presented before the holding of the General Meeting and shall publish the question and response on its website.*

None of the issuers mentioned the non-compliance with this CGC section in their Corporate Governance reports of 2009.

Arco Vara AS, Nordecon International AS, Olympic Entertainment Group AS, Tallinna Kaubamaja AS and AS Tallink Grupp described the compliance with this recommendation in their reports.

Nordecon International AS stated in its report that questions (if presented), relevant answers and positions of the General Meeting were published on the website. The Financial Supervision Authority considers that the report must be prepared for a specific reporting period; thus, if the issuer covers this issue in its report, it should mention whether there were questions presented to the issuers during the reporting period (in this case the 2009 calendar year) before the General Meeting(s) and whether those questions together with respective answers were published on the issuer's website.

AS Baltika, AS Ekspress Grupp, AS Harju Elekter, AS Järvevana, AS Merko Ehitus, Silvano Fashion Group AS, AS Tallinna Vesi, AS Trigon Property Development and AS Viisnurk did not describe the compliance with this recommendation in their reports.

As regards to this CGC recommendation, the only exception is AS Premia Foods who was not a public issuer in 2009. AS Premia Foods disclosed in its report that the notice calling the General Meeting was sent personally to all shareholders and that the materials related to the General Meeting were available at the registered office of the issuer. Based on the description presented in the report, the issuer confirms that it has complied with CGC recommendations for the assembly and organization of a general meeting.

In 2009, most of the issuers mentioned in the notice calling the General Meeting their e-mail address that could be used for presenting questions on the agenda of the General Meeting. Arco Vara AS, AS Ekspress Grupp, AS Harju Elekter, Nordecon International AS, AS Tallinna Vesi and AS Viisnurk mentioned in their notices calling the General Meeting that all questions, answers and positions of the General Meeting would be published on the issuer's website.

AS Tallink Grupp and AS Trigon Property Development did not refer in the notice calling the General Meeting to the possibility to present via the e-mail questions on the agenda of the General Meeting, nor did they provide clearly the respective e-mail address. Still, their notices calling the General Meeting include the contact data of the issuer at the end, including the e-mail address; therefore, the CGC recommendation in respect of providing the e-mail address can be considered as complied with. It has to be mentioned that AS Tallink Grupp informs in its report that the shareholders are able to present questions before the General Meeting by sending these questions to the e-mail address info@tallink.ee. This information is incorrect as far as the year 2009 is concerned.

In case the issuer wishes to explain in the report the compliance with this recommendation, the Financial Supervision Authority suggests that the issuer should clearly mention in the report whether the investors were given the possibility to present questions before the General Meeting, whether such questions were presented and whether those questions and respective answers were published on the issuer's website. In addition, the report should elaborate the period during which these questions and answers related to the General Meeting are available on the website.

The Financial Supervision Authority requires the issuers to focus more on the presentation of accurate facts in their Corporate Governance reports. E.g. Arco Vara AS states in its report, in respect of the special general meeting that was organized on 17 December 2009, that the questions were not published on the website because no written questions regarding the agenda were presented before the general meeting. Still, the issuer's website (and the notice calling the General Meeting) states that the respective general meeting was organized on 11 December 2009. The issuer's website also includes the questions and answers presented in relation with that general meeting. Publication by Arco Vara AS of questions presented by the press and the respective answers on its website is a highly recommended practice.

Only some of the issuers mentioned in the notice calling the General Meeting that the questions and respective answers would be published on the issuer's website. The Financial Supervision Authority suggests that the issuers who publish these questions and answers on their websites should also include the respective note also in the notice calling the General Meeting.

The Financial Supervision Authority considers it important that the shareholders receive the possibility the present questions on the agenda items discussed by the General Meeting; the shareholders must be clearly informed of this possibility. The Financial Supervision Authority considers that the respective explanation should have been included in the Corporate Governance report, if the questions on the General Meeting were not published because no such questions were presented.

CGC 1.2.2. The Management Board and Supervisory Board shall present to the shareholders all information available to them or essential information provided to them necessary for passing a resolution at the General Meeting concurrently with the notice calling the General Meeting. The Issuer shall provide reasons for calling the General Meeting and explanations for items included on the agenda, determining amendments that are essential to the shareholder (for instance amending the articles of association, issuance of additional shares or other securities associated with shares or extraordinary transactions, the content of which is the sale of all or a majority of the assets or the company, or which are concluded with a person related to the Issuer). If the General Meeting is called by the shareholders, the Supervisory Board or auditor, or if an item has been entered on the agenda at the request of the Management Board or a shareholder, the bodies or persons requesting the calling of the General Meeting or entering of an item on the agenda shall provide their reasons and explanations. The shareholders shall be permitted to examine information regarding questions shareholders have presented to the Issuer in connection with the holding of the General Meeting if the information is connected with an agenda item of the General Meeting. The Management Board or Supervisory Board has the right to withhold this information if this is in contravention of the Issuer's interests. In such case, the Management Board and Supervisory Board shall justify the withholding of the information. Information to shareholders must also be provided in Estonian.

CGC 1.2.3. The Management Board shall publish on the Issuer's website the essential information connected with the agenda provided to it or otherwise available concurrently with compliance with the requirements for calling a General Meeting provided by law. I—I Information shall be published concerning a Supervisory Board member candidates' participation in supervisory boards, management boards or the management of other companies I—I

CGC 1.2.4. *Within a reasonable period of time prior to the holding of a General Meeting, the Supervisory Board shall publish its proposed agenda items on the Issuer's website.*

Arco Vara AS, AS Järvevana, AS Merko Ehitus, Nordecon International AS, Olympic Entertainment Group AS, AS Premia Foods¹⁶, AS Silvano Fashion Group, AS Tallinna Kaubamaja and AS Tallink Grupp covered this recommendation in their Corporate Governance reports.

AS Järvevana mentions in the report that it publishes the date, venue and agenda of the general meeting as well as proposals of the Supervisory Board in respect of agenda items in a national daily newspaper and through the stock exchange system. AS Silvano Fashion Group mentions in the report that materials on the agenda items of general meetings were available at the registered office of the issuer.

The Financial Supervision Authority considers that the statements of the issuers mentioned above are not in compliance with the principle "comply or explain" of the Corporate Governance report, because the issuers failed to mention clearly that they have not complied with the CGC recommendation, nor did they explain the reasons for the non-compliance. In addition, AS Järvevana and AS Silvano Fashion Group disclose in their Corporate Governance reports in essence the fact that they do not perform the obligation provided by the Commercial Code for the issuer of listed shares to publish the information related to the general meeting on the issuer's website.

Arco Vara AS mentions in the report that the Management Board did not publish on the company's website prior to the general meeting any specific proposals in respect of the agenda items, because the Management Board had no additional important proposals in respect of these agenda items; the relevant proposals were published in the notice calling the general meeting.

AS Baltika, AS Ekspress Grupp, AS Harju Elekter, AS Tallinna Veski, AS Trigon Property Development and AS Viisnurk did not cover this recommendation in their reports.

Most of the issuers have referred in their notices calling the general meeting to the fact that the information and documents of agenda items of the general meeting are available on the issuer's website, and added the respective link to the notice. Still, several issuers mentioned in this context only their annual report; the Financial Supervision Authority considers that they have failed to fully comply with the CGC recommendation.

AS Järvevana added the link to the website of the NASDAQ OMX Tallinn Stock Exchange to its notice calling the general meeting, stating that the issuer's annual report (the approval of annual report was one of the agenda items of the general meeting) is available under that link. This practice cannot be considered to be in compliance with the CGC recommendations; besides, it is in contradiction with the requirements provided by § 294¹ of the Commercial Code to publish the information and documents related to the general meeting, including annual report, on the issuer's website.¹⁷

At the time of preparing this overview, there was neither information on general meetings of 2009 nor respective materials on the websites of most of the issuers, except for notices calling the general meeting and decisions of the general meeting. Some websites disclosed the information related to general meetings only under the section of Stock exchange announcements and not under a separate section; in these cases only the notice calling the general meeting was published. Nevertheless, it is possible that this information was published during the period from publishing the notice calling the general meeting to holding the general meeting, and that this information had been removed from the website by the time the Financial Supervision Authority checked the website.

The website of AS Tallink Grupp's corporate data is in English. Although part of the information meant for investors, e.g. the minutes of the special general meeting held in 2010 is also available in Estonian, the Financial Supervision Authority considers that the information presented in such a manner may be difficult to find for the shareholders. AS Silvano Fashion Group has also only the English version of the website.

¹⁶ See the statements made in the former section of this overview in respect of AS Premia Foods.

¹⁷ AS Järvevana has still no website.

The Financial Supervision Authority suggests that information of agenda items of the last general meeting should be disclosed on the website of the issuer at least until the publication of information on the next general meeting. In addition, the Financial Supervision Authority would emphasize that the publication of Stock exchange announcements and annual report on the issuer's website cannot be considered as sufficient publication of information related to the general meeting, because it could be difficult and time-consuming to find the data related to the general meeting among the information presented in such a manner.

The Financial Supervision Authority considers it of utmost importance that the shareholders are able to find as quickly and efficiently as possible sufficient data in order to perform the substantial evaluation of draft decisions mentioned under the agenda items of the general meeting. It is not possible that the shareholder gets a thorough understanding of all relevant documents during the meeting; also, often it would not be possible to exercise the right to present clarifying questions to the issuer without examining beforehand the information presented in such documents. Participation in the general meeting and making of decision is one of the most important rights of a shareholder, and the issuer has to ensure that the shareholder has the possibility to exercise that right.

Issuer's website should include a section that can be easily found and that displays all data related to the general meeting, including the notice calling the general meeting, materials related to the general meeting, questions presented by shareholders prior to the general meeting, etc.

CGC 1.3.1. I—I The Chairman of the Supervisory Board and members of the Management Board cannot be elected as Chair of the General Meeting.

According to Corporate Governance reports 2009, AS Silvano Fashion Group and AS Viisnurk did not comply with this recommendation. AS Silvano Fashion Group explains that a member of the Management Board was elected as Chair of the general meeting based on practical considerations, because it facilitated the provision of competent answers to shareholders' questions. AS Viisnurk mentions that this practice ensured the smooth organization of the general meeting and the holding of the meeting in Estonian language; this was in the interests of all shareholders and all shareholders that participated in the general meeting approved it. Both issuers elected a member of the Management Board as Chair of the general meeting also in 2007 and 2008, and provided similar explanations for the non-compliance with this CGC recommendation.

Besides the issuers mentioned above, the non-compliance with this CGC recommendation was also mentioned by AS Premia Foods in its report, who provides similar reasons to AS Silvano Fashion Group and also confirms that this practice did not jeopardize the interests if the issuer or its shareholders.

The Financial Supervision Authority reiterates its opinion presented in former overviews on Corporate Governance reports that these explanations are not sufficient. The possibility of giving competent answers to shareholders' questions is guaranteed in CGC recommendation 1.3.2, which prescribes the requirement that members of the Management Board must be present at the general meeting. The objective of this recommendation is to ensure the interests of shareholders through an independent chair of the general meeting. If such a person is elected as a chair of the meeting who has a potential conflict of interest with shareholders as a result of his duties, the complete consideration of the shareholders' interests is put in question.

AS Baltika, AS Ekspress Grupp, AS Harju Elekter, AS Merko Ehitus, Olympic Entertainment Group AS, AS Tallink Grupp, AS Trigon Property Development, AS Tallinna Vesi and AS Järvevana did not separately cover this CGC recommendation in their reports.

Arco Vara AS, Nordecon International AS and AS Tallink Grupp stated clearly in their reports that the general meeting was not chaired by a member of the Management Board or Supervisory Board of the issuer, or added also the name of the person who chaired the general meeting.

If the issuer wishes to describe in its Corporate Governance report all relevant facts related to general meetings, the Financial Supervision Authority suggests to mention clearly, for the sake of clarity, that the general meeting was chaired by the person who was not related to the issuer or, if relevant, to mention clearly that the CGC recommendation was not complied with and provide the reasons for non-compliance.

CGC 1.3.2. Members of the Management Board, the Chairman of the Supervisory Board and, if possible, members of the Supervisory Board and at least one of the auditors shall participate in the General Meeting. Also participating in the general meeting is the supervisory board candidate, who has previously not been a member of the Issuer's supervisory board, and the candidate for the position of auditor.

Most of the issuers have mentioned in their reports the persons who participated in the general meeting and/or persons who did not. Nevertheless, the reports do not provide the explanation of reasons for the non-compliance with this CGC recommendation.

Arco Vara AS states in its report that the regular general meeting was attended by members of the Management Board, the Chairman of the Supervisory Board, a member of the Supervisory Board and the auditor. Other members of the Supervisory Board did not participate because of their duties in other companies. According to the report, there were 2 special general meetings held in 2009 that were attended by all members of the Management Board, the Chairman of the Supervisory Board and the same member of the Supervisory Board who also participated in the regular general meeting. Other members of the Supervisory Board and the auditor did not participate and there were no explanations provided for their non-participation.

AS Merko Ehitus and AS Järvevana mention in their reports that the general meeting is attended by the Chairman of the Management Board and the Chairman of the Supervisory Board. Other members of the Management Board and the Supervisory Board are involved, if necessary. According to reports, companies do not consider the participation of all members of the Management Board and the Supervisory Board in the general meeting as rational.

The Financial Supervision Authority considers that such a presentation is not in compliance with CGC requirements, because it is not clear whether the issuer complied with the respective CGC recommendation in 2009 or not. Information presented in these reports can rather bring along the conclusion that AS Merko Ehitus and AS Järvevana have made a fundamental decision not to comply with the CGC section 1.3.2, also when holding the general meeting in 2009. Also, the Financial Supervision Authority is of the opinion that the issuer's statement that the participation of all members of the Management Board and the Supervisory Board in the general meeting is not considered as rational is not in compliance with the requirement "comply or explain", because it does not explain why such participation is not considered as rational.

Nordecon International AS mentioned in its Corporate Governance report that the general meeting was attended by all members of the issuer's Management Board, the Chairman of the Supervisory Board and the Issuer's auditor. The report did not explain (and the CGC does not directly require the explanation of) the non-participation of other members of the Supervisory Board. Issuer confirmed in the section on the holding of the general meeting that has complied with the CGC recommendations for 2009 as far as the holding of the general meeting is concerned.

Olympic Entertainment Group AS disclosed in its report that the company did not comply with this CGC recommendation, because Liina Lins and Peep Vain, members of the Supervisory Board, and the auditor did not attend the general meeting. According to the report, the participation of these persons was not directly necessary.

The Financial Supervision Authority considers this explanation as insufficient, because the agenda items of the General meeting included the approval of annual report and the distribution of profit, which are the issues directly relevant for the auditor. In addition, the agenda of the general meeting included the election of a new auditor, but the report did not explain why the candidate auditor did not participate in the general meeting.

AS Silvano Fashion Group mentions that all members of the Management Board and the auditor did not attend the general meeting held in 2009. Non-compliance with the recommendation was explained by practical considerations and travel plans of these persons. The Financial Supervision Authority notices that AS Silvano Fashion Group provided the same reason for the non-compliance with the CGC recommendation also in its Corporate Governance report 2008.

The Financial Supervision Authority does not deem practical considerations to be a sufficient explanation for non-compliance with the CGC. The issuer must present justification to the shareholders regarding the practical considerations that resulted in certain persons not participating in the general meeting.

AS Tallinna Kaubamaja discloses in its report that the general meeting was attended by Raul Puusepp, the member of the Management Board, and by Andres Järving, the Chairman of the Supervisory Board. In addition, the issuer confirms in the report that based on described management principles, the company was in compliance with the CGC in 2009 in respect of providing information to shareholders, as well as calling and holding the general meeting.

Although the CGC section 1.3.2 was formally complied with, the Financial Supervision Authority suggests that the subsequent reports should also mention the participation of the auditor or explain the reasons for non-participation.

AS Trigon Property Development discloses in its report that the general meeting was attended by a member of the Management Board. Members of the Supervisory Board and the auditor did not participate in the general meeting. According to the report, the Management Board did not consider the participation of the auditor necessary, because the agenda included no such items that would have required the auditor's comments. The issuer had provided the same explanation also in its report of 2008. Non-participation of members of the Supervisory Board is not explained.

The Financial Supervision Authority considers it necessary to draw the attention on the factual error, because the issuer's general meeting was actually held on 16 June 2009 and not on 19 May 2009, as was mentioned in the report. Besides, the Financial Supervision Authority is of the opinion that the company did not comply with the "comply or explain" principle, because the non-participation of members of the Supervisory Board was not explained. In addition, the explanation for the non-participation of the auditor cannot be considered sufficient, as the agenda of the general meeting included the approval of annual report, covering of loss of 2008 and election of the auditor for the accounting year 2009, i.e. all these agenda items were directly relevant for the auditor.

Similarly to AS Trigon Property Development, also AS Viisnurk mentioned in its report that members of the Supervisory Board and the auditor did not participate in the general meeting. It provided the same explanation for non-participation as in 2008. Nevertheless, also the agenda of the general meeting of AS Viisnurk included the approval of annual report, distribution of profit, election of the auditor and also the election of a new member of the Supervisory Board. Comments provided above by the Financial Supervision Authority are also relevant for AS Viisnurk.

AS Tallink Grupp mentions that the general meeting was due to work assignments not attended by one member of the Supervisory Board. AS Premia foods explains the non-participation of members of the Supervisory Board and the Auditor with personal reasons, and confirms that this did not jeopardized the interests of the issuer and its investors.

Other issuers did not separately cover this recommendation in their reports.

Based on the wording of this CGC recommendations, the compliance can be at different level: the general meeting may be attended by members of the Management Board and the Chairman of the Supervisory Board or, besides these persons mentioned before, also by other members of the Supervisory Board and at least one of the issuer's auditors. Therefore, the Financial Supervision Authority recommends describing the compliance or non-compliance with this CGC recommendation and specifying whether all persons mentioned in the recommendation attended the general meeting. If all persons mentioned in the recommendation did not participate in the general meeting, the report should elaborate the persons who did not participate and provide the explanation of reasons.

Although the CGC recommendation is complied with also in case when only the Chairman of the Supervisory Board (and also the candidate member of the Supervisory Board and the candidate auditor, depending on the agenda) participates in the general meeting besides members of the Management Board, the Financial Supervision Authority suggests in that case that the issuer should provide an explanation in its report why other members of the Supervisory Board and the auditor did not participate in the general meeting.

CGC 1.3.3. Issuers shall make participation in the General Meeting possible by means of communication (for example, the Internet) if the corresponding technical equipment is available and if doing so is not too costly for the Issuer.

The majority of issuers disclose in their reports that they do not make it possible to view or participate in the general meeting via means of communication. They substantiate non-compliance with the recommendation by the lack of technical equipment and the fact that the cost would be unreasonable. Mentioned as another reason for non-compliance with this section was the matter that such solution would not find sufficient use by the shareholders and there are no reliable solutions for identifying the shareholders and ensuring the privacy of participating shareholders.

AS Ekspress Grupp, AS Harju Elekter and AS Tallinna Vesi did not cover the compliance with this recommendation in their reports. The Financial Supervision Authority did not find on any issuer's website or in any notice calling the general meeting any indications of the possibility to view the general meeting by means of communication; therefore the Financial Supervision Authority assumes that also other issuers failed to comply with the recommendation of this section besides those who have mentioned it in their Corporate Governance reports.

II • Management Board

Membership

CGC 2.2.1. *The Management Board shall have more than one (1) member and a Chairman elected by its members. The Management Board or Supervisory Board shall establish an area of responsibility for each member of the Management Board, defining as clearly as possible the duties and powers of each board member. The principles for cooperation between members of the board shall be also established. The Chairman of the Supervisory Board shall conclude a contract of service with each member of the board for discharge of their functions.*

As at the end of 2009, four issuers had a one-member management board.

The Management Board of Arco Vara AS consists of one member since 4 September 2009; prior to that it consisted of 3 members. The issuer explains this change in the composition of the Management Board with the need to ensure the better work organization and efficient management of the company as well as with the restructuring of activities.

AS Baltika discloses that employment contracts have been concluded with four members of the management board according to their areas of responsibility and a consulting contract was concluded with one member of the management board through a company that the member owns. Baltika substantiates deviation from the CGC recommendation by the fact that members of the management board are responsible for strategic areas in the company, and their duties are not limited to the duties arising from laws and the articles of association of the company.

AS Olympic Entertainment Group discloses that the Management Board consisted of one member until 30 September 2009; since 1 October 2009, the Management Board consists of two members. The report does not specify whether the Chairman of the Management Board has been elected from among these members.

If the issuer's management board includes an even number of members, the Financial Supervision Authority suggests that the report should elaborate the weight of members' votes in a situation where these votes split evenly when making decisions.

AS Silvano Fashion Group discloses that the Management Board includes 4 members, but it does not specify their areas of responsibility nor the information whether the Chairman of the Management Board has been elected from among these members. Also, the report does not elaborate whether there have been employment contracts concluded with members of the Management Board.

AS Tallink Grupp discloses in the report that the Management Board currently includes 4 members, whereas one member of the Management Board was elected on 15 October 2009. The report specifies that the Chairman and the Vice Chairman of the Management Board have been elected from among these members; it also specifies the areas of responsibility of the members as well as the fact that there have been employment contracts concluded with members of the Management Board.

AS Premia Foods also discloses in its Corporate Governance report that one of the members of the Management Board was elected on 5 March 2010, i.e. after the end of the reporting period. The report does not elaborate whether and how the areas of responsibility of the members of the Management Board have been divided and whether there have been employment contracts concluded with members of the Management Board.

The Financial Supervision Authority states in this respect that the Corporate Governance report should be prepared as a part of the issuer's management report for the company's reporting period. As the reporting period of AS Tallink Grupp ended on 31 August 2009, it is not appropriate to disclose in the report the information on the members of the Management Board that were elected after this date. Instead, the report should explain the compliance with the CGC, i.e. the composition of the Management Board and their areas of responsibility during the period from 1 September 2008 until 31 August 2009.

AS Tallinna Kaubamaja states that a one-member Management Board has become a historical tradition for the issuer; the same explanation was also disclosed in the Corporate Governance reports for 2006, 2007 and 2008. The issuer explains that the management of the parent company includes four area managers and that the Management Board in cooperation with the management makes all decisions.

In the opinion of the Financial Supervision Authority, the reasons for non-compliance with this recommendation are unsatisfactory. AS Tallinna Kaubamaja's reference to history may be correct, but does not give the actual reason for using the chairman; non-compliance with certain requirements or recommendations does not justify the recurring non-compliance.

AS Trigon Capital discloses that the Management Board consists of one member, but it does not exclude the possibility of electing more members. At the same time it states that no contract has been concluded with the member of the Management Board and that his rights and obligations arise from law. AS Trigon Property Development had a one-member Management Board also in 2007 and 2008, and the Corporate Governance report for 2007 confirmed that the issuer had an intention to appoint an addition member of the Management Board.

In this respect, the company does not comply with the requirement "comply or explain", because the non-compliance with the CGC recommendation cannot be explained by stating that the company does not exclude the possibility of electing more members in future.

AS Järvevana states in the report that the Management Board consists of one member, but it does not explain the reasons for non-compliance with the CGC recommendation.

AS Ekspress Grupp explains in the report that the authorities of members of the Management Board are provided by the Commercial Code and limited to the extent specified by the issuer's articles of association. The report does not explain whether and how the areas of responsibility of the members are divided.

AS Harju Elekter states in the report that a contract of service was concluded with the Chairman of the Management Board and employment contracts were concluded with other members. The issuers have does not provide the explanation of reasons for the non-compliance with the CGC recommendation.

AS Viisnurk does not mention this recommendation in its report.

CGC 2.2.2. A member of the Management Board shall not be at the same time a member of more than two management boards of an Issuer and shall not be the Chairman of the Supervisory Board of another Issuer. A member of the Management Board can be the Chairman of the Supervisory Board of a company belonging to the same group as the Issuer.

Corporate Governance reports of issuers show that the wording of the recommendation is not clear that some issuers have interpreted it broadly, disclosing the attendance of members of the issuer's Management Board in management or supervisory boards of all other companies. Although the broad interpretation is recommendable, the Financial Supervision Authority considers the possibility – for the sake of uniform practice – to elaborate the wording of this recommendation in future, in order to explain that this means only the issuers of securities that are traded on regulated markets.

Given the small number of issuers whose securities are traded on the NASDAQ OMX Tallinn Stock Exchange, there are no problems in complying with this recommendation.

Only one issuer – Arco Vara AS – presented in its report for 2009 a negative confirmation as far as the compliance with this recommendation is concerned. It disclosed that no member of the Management Board is simultaneously the member of more than two issuers' management boards, the chairman of the other issuer's management board or the chairman of the management of the issuer that belongs into the same group as the company. Nevertheless, it is unclear from this wording whether any member of the Management Board is, for example, the member of two issuers' management boards.

AS Trigon Property Development discloses that the only member of the Management Board belongs to the management board of more than two issuers, but the Supervisory Board finds that it does not damage the interests of the issuer or shareholders due to the economic activities of the issuer. The same fact and explanation was also disclosed in the reports for 2007 and 2008.

The Financial Supervision Authority continues to maintain the position that the presented explanation is insufficient, since the company has not fully explained the circumstances on the basis of which the Supervisory Board of the issuer reached the given position. Furthermore, it is not clear as to in which areas of activity these issuers operate. Therefore, in the given situation, the shareholders are not in a position to assess whether the described situation may damage their interests or not.

AS Tallinna Vesi discloses in its report that one member of the Management Board attends in the management boards of other companies, specifying also the relevant companies. As far as other members of the Management Board are concerned, the issuer presents a negative confirmation in the report.

Other issuers do not cover this recommendation in their reports.

The Financial Supervision Authority suggests that the issuers should clearly mention in their Corporate Governance reports if a member of the issuer's Management Board is simultaneously the member of the Management Board of more than two listed issuers or the Chairman of the Management Board of another listed issuer. If this is the case, the Financial Supervision Authority recommends to provide the names of the companies in the report in which management or supervisory board the respective persons attends.

In case of compliance with this recommendation, the Financial Supervision Authority suggests that the issuers should present a negative confirmation in their reports.

Remuneration of members of the Management Board

CGC 2.2.3. *The bases for Management Board remuneration shall be clear and transparent. The Supervisory Board shall discuss and review regularly the bases for Management Board remuneration. Upon determination of the Management Board remuneration, the Supervisory Board shall be guided by an evaluation of the work of Management Board members. Upon evaluation of the work of Management Board members, the Supervisory Board shall, above all, take into consideration the duties of each member of the Management Board, their activities, the activities of the entire Management Board, the economic condition of the Issuer, the actual state and future prediction and direction of the business in comparison with the same indicators of companies in the same economic sector.*

CGC 2.2.7. *Basic wages, performance pay, severance packages, other payable benefits and bonus schemes of a Management Board member as well as their essential features (including features based on comparison, incentives and risk) shall be published in clear and unambiguous form on the website of the Issuer and in the Corporate Governance Code Report. Information published shall be deemed clear and unambiguous if it directly expresses the amount of expense to the Issuer or the amount of foreseeable expense as of the day of disclosure. I—I*

All issuers that have published their Corporate Governance report have covered this CGC recommendation. As in 2007 and 2008, the coverage of this CGC section should be considered unsatisfactory.

Several issuers disclose the remuneration paid to members of the Management Board as an aggregate amount, which often also includes the remuneration of members of the Supervisory Board. Such an aggregate amount is, as a rule, specified in the Corporate Governance report; in certain cases references are, however, made to other parts of the annual report. The majority of the issuers have specified the bonus schemes and the severance pay rates.

Majority of issuers are of the opinion that the individual remuneration of members of the Management Board is confidential information that may be considered to be business secret, which is not recommended to be disclosed to competitors and which is not strictly necessary for the assessment of the management quality of the company.

The closest to being in compliance with this CGC recommendation were those issuers who specified in the Corporate Governance report the total amount of remunerations paid to members of the Management Board, along with a brief description of the bonus schemes and severance pay rates. However, the Financial Supervision Authority considers that most of the issuers have still some room for development in describing the bases for determination of remuneration, the bonus schemes and severance pay rates.

In the opinion of the Financial Supervision Authority, the failure to specify the remuneration paid to members of the Management Board is particularly unjustified in the event when the aggregate amount of remuneration paid to members of the Management Board and Supervisory Board is disclosed, and the remunerations paid to members of the Supervisory Board are separately specified.

The amount of remunerations should be specified in the Corporate Governance report, not as a reference to other parts of the annual report. In addition to the above, the CGC section 2.2.7 also recommends the disclosure of the information related to the remuneration of members of the Management Board on the issuer's website. This recommendation has been indirectly observed by issuers on whose website may be found such information from the Corporate Governance report.

At the same time, e.g., the report of AS Järvevana states that the company's annual report will reveal also the remuneration paid to the member of the Management Board, but the report itself does not display this information nor present the link to the annual report. As the issuer does not have a website, the annual report of the issuer can be found only on the website of the NASDAQ OMX Tallinn Stock Exchange.

Nordecon International AS discloses in its Corporate Governance report that besides the monthly remuneration set in the employment contract, members of the Management Board receive *inter alia* also bonuses for good financial results pursuant to the decision of the Supervisory Board. Still, the report does not explain the criteria for defining good financial results nor provide the information on whether the members of the Management Board received any bonuses during the reporting period and, if yes, how much.

AS Tallinna Kaubamaja discloses in its Corporate Governance report the total amount of remuneration and benefits accounted for and paid in 2009 to the only member of the Management Board. Nevertheless, the report does not explain the bases for determining the performance pay nor provide the information on whether and which other benefits were paid to the Management Board in 2009.

AS Trigon Property Development discloses in its report that the member of the Management Board receives currently no remuneration; still, it does not explain the reasons for not paying any remuneration to the member of the Management Board.

Compliance with this CGC section is especially important in light of the 2009 European Commission recommendation concerning the remuneration procedures of members of administrative, management and supervisory bodies of listed companies. In the opinion of the Financial Supervision Authority, it is necessary that the bases for remuneration of members of the Management Board would be clear and transparent. Shareholders can evaluate the principles and bases of remuneration only when they have been disclosed; therefore they should be described when disclosing the remuneration of the Management Board. Detailed information concerning the principles and bases of remuneration cannot be considered disrespectful to the privacy of members of the Management Board.

Conflict of interests

CGC 2.3.1. Members of the Management Board shall avoid conflicts of interest in their activity. Members of the Management Board shall not make decisions on the basis of their own interests or use business offers addressed to the Issuer in their own interests.

CGC 2.3.2. The Supervisory Board shall approve the transactions, which are significant to the Issuer and concluded between the Issuer and a member of its Management Board or another person that is connected or close to them, and shall determine the terms of such transactions. Transactions approved by the Supervisory Board between the Issuer and a member of the Management Board, a person close to them or a person connected to them shall be published in the Corporate Governance Code Report.

According to the CGC section 2.3.2, the Corporate Governance report must contain information on transactions approved by the Supervisory Board between the issuer and a member of the Management Board or another person that is close or connected to the member. In the opinion of the Financial

Supervision Authority, this involves important information that enables the shareholders to assess whether the management of the issuer has behaved in the most efficient manner economically as well as proceeded from the interests of shareholders and not its own private interests.

AS Harju Elekter, AS Järvevana, AS Merko Ehitus, AS Tallinna Kaubamaja, AS Tallinna Vesi and AS Trigon Property Development did not directly cover this issue in their reports.

Other issuers confirm in their reports that there is no conflict of interests between members of the Management Board and the issuer or that the issuer has complied with the CGC requirements for avoiding the conflict of interests.

In the opinion of the Financial Supervision Authority, the Corporate Governance report should indicate this in the case of the absence of such transactions. A reference to general absence of conflict of interests cannot be considered to be correct compliance with the recommendation of CGC section 2.3.2.

III • Supervisory Board

Duties

CGC 3.1.3. Upon the establishment of committees (audit committee, remuneration committee, etc.) by the Supervisory Board, the Issuer shall publish on its website their existence, duties, membership and position in the organization. Upon a change in the circumstances concerning a committee, the Issuer shall publish in the same manner the content of such changes and the period during which the procedures are in effect.

Arco Vara AS and Olympic Entertainment Group AS disclose that they have established no committees.

AS Merko Ehitus discloses in the report that the issuer has established the Direction of the Group, and explains its functions. At the same time, the report does not specify whether the relevant information is also published on the issuer's website. The Financial Supervision Authority did not find the information on this Direction under the section of issuer's organizational structure, but only in the Stock exchange announcement that discloses the decisions of the general meeting, which *inter alia* established the Direction of the Group.

AS Tallinna Vesi discloses that the area of responsibility of one of the members of the Supervisory Board includes the auditing area and that compliance, performance, financial and other audits are regularly performed in the company.

Other issuers do not cover this recommendation in their reports. Still, the Financial Supervision Authority has found no information on issuers' websites on the establishment of such committees and therefore it is reasonable to conclude that issuers who do not mentioned this recommendation clearly in the report did not also comply with this CGC recommendation.

Membership

CGC 3.2.2. At least half of the members of the Supervisory Board of the Issuer shall be independent. If the Supervisory Board has an odd number of members, then there may be one independent member less than the number of dependent members.

Both Arco Vara AS and AS Baltika disclose that more than half of the members of the Supervisory Board are independent.

AS Silvano Fashion Group and AS Premia Foods confirm in their reports that members of the Supervisory Board are elected according to CGC principles and that members of the Supervisory Board are in compliance with the requirements established by the CGC.

AS Tallinna Vesi, AS Viisnurk and AS Trigon Property Development disclose that independent members account for less than a half of the total number of the members of the Supervisory Board. They provide in their reports the explanation of reasons why certain members of the Supervisory Board cannot be considered independent. AS Trigon Property Development mentions that it may consider changing the composition of the Supervisory Board, but confirms at the same time its belief that experiences and knowledge of members of the Supervisory Board ensure the effective and profitable management, taking thus the interests of shareholders into full account.

AS Olympic Entertainment Group is in compliance with this recommendation since 3 June 2009 when 2 members were withdrawn from the Supervisory Board.

Other issuers do not cover this recommendation in their reports.

In the opinion of the Financial Supervision Authority, compliance with this CGC recommendation is very important, as it ensures independent control over the management of the issuer. The Financial Supervision Authority considers that it is of utmost importance to thoroughly and fully explain any deviations that occur upon the compliance with this section.

CGC 3.2.6. If a member of the Supervisory Board has attended less than half of the meetings of the Supervisory Board, this shall be indicated separately in the Corporate Governance Report.

Arco Vara AS states that one member of the Supervisory Board has attended less than half of the meetings due to his stay abroad.

AS Viisnurk discloses that all members of the Supervisory Board attended more than half of the meetings.

AS Baltika, AS Ekspress Grupp, AS Harju Elekter, AS Järvevana, AS Merko Ehitus, Nordecon International AS, AS Tallink Grupp, AS Tallinna Kaubamaja, AS Silvano Fashion Group, AS Tallinna Kaubamaja and AS Premia Foods do not cover this recommendation in their reports.

AS Tallinna Vesi discloses that some members of the Supervisory Board attended less than half of the meetings, but only due to the reason that they had resigned.

Olympic Entertainment Group AS discloses that one member of the Supervisory Board was not able to attend the meetings because of his stay abroad. This explanation was presented also in the report for 2008. Still, it remains unclear whether this member did not attend part or none of the meetings of the Supervisory Board.

AS Trigon Property Development states that one member of the Supervisory Board attended less than half of the meetings, but does not provide the explanation of reasons.

In the opinion of the Financial Supervision Authority, information on the activities of the members of the Supervisory Board is important for shareholders and investors. The activities of members of the Supervisory Board must ensure independent control over the management of the issuer, but review and control over the activities of members of the Supervisory Board are equally important, because they enable the shareholders to make reasoned decisions upon the election and removal of members of the Supervisory Board.

Remuneration of members of the Supervisory Board

CGC 3.2.5. *The amount of remuneration of a member of the Supervisory Board shall be published in the Corporate Governance Report, indicating separately basic and additional payment (including compensation for termination of contract and other payable benefits).*

AS Trigon Property Development was the only issuer who did not cover this recommendation in its Corporate Governance report for 2009. It failed to disclose the remunerations paid to members of the Supervisory Board and also the explanation of reasons for the non-compliance with this CGC recommendation.

Arco Vara AS, AS Baltika, AS Harju Elekter, Nordecon International AS, AS Tallinna Kaubamaja and AS Tallink Grupp disclose the remuneration of members of the Supervisory Board separately for each member. AS Ekspress Grupp, AS Silvano Fashion Group and AS Viisnurk disclose that members of the Supervisory Board received no remuneration.

AS Silvano Fashion Group states that members of the Supervisory Board received no remuneration in 2009, but received compensation for expenses related to the performance of their duties. AS Premia Foods mentions similarly in its report that besides the remuneration of members of the Supervisory Board disclosed in the report, the members of the Supervisory Board received compensation for expenses related to their duties.

The Financial Supervision Authority maintains that this is not sufficient in order to comply with the CGC requirement "comply or explain", because it is not clear from the report, which expenses incurred for members of the Supervisory Board in relation to the performance of their duties and in which amount these expenses were compensated.

AS Harju Elekter discloses besides the remuneration of members of the Supervisory Board that the bonuses system of the issuer is applied in respect of the Chairman of the Supervisory Board. However, the report provides no further explanation of the bonuses system or reference to the possibility to receive more information on this bonuses system.

AS Järvevana and AS Merko disclose in their reports that the general meeting approved the procedures for the remuneration of members of the Supervisory Board. Still, they provide no direct link to the respective decision of the general meeting.

When comparing with 2008 reports, it is worth mentioning that AS Tallinna Kaubamaja discloses in its Corporate Governance report for 2009 all the remuneration paid to members of the Supervisory Board separately for each member. However, there is no information on other benefits paid to members of the Supervisory Board neither the respective negative confirmation.

Olympic Entertainment Group AS mentions the non-compliance with the CGC recommendation and provides the explanation that this information is sensitive information for members of the Supervisory Board and that the disclosure of remuneration is not inevitably important for the evaluation of company's activities and management quality. The report specifies that the remuneration paid in 2009 to members of the Supervisory Board is presented as an aggregate amount under the section "Personnel" of the management report.

Conflict of interests

The Financial Supervision Authority concludes that a reference in this respect to other documents or other parts of the annual report cannot be considered adequate, because the CGC clearly requests that the remunerations determined by a resolution of the general meeting be disclosed in the Corporate Governance reports. The remuneration designated for members of the Supervisory Board is, at least to the extent of the payable basic payment, public information that is disclosed in the decisions of general meeting of issuers; hence the statement is not justified that the disclosure of remuneration of each member would be disrespectful towards their privacy. However, in general, we may be satisfied with the compliance with this CGC section.

CGC 3.3.2. A Supervisory Board member candidate shall inform other members of the Supervisory Board about the existence of conflict of interests before their election and immediately upon arising after election. Members of the Supervisory Board shall promptly inform the Chairman of the Supervisory Board and Management Board regarding any business offer related to the business activity of the Issuer made to him, a person close to him or a person connected with him.

All conflicts of interests that have arisen during the accounting year are included to the Corporate Governance report together with the respective solution.

7 issuers covered the conflict of interests in Corporate Governance reports of 2009: Arco Vara AS and AS Baltika confirm that there were no conflicts of interests; Nordecon International AS and AS Viisnurk state that the Supervisory Board did not inform the Management Board of any conflict of interests; AS Silvano Fashion Group reports that the Management Board is not aware of any conflict of interests; and Olympic Entertainment Group AS and AS Tallink Grupp disclose that members of the Supervisory Board avoid all conflicts of interests.

AS Ekspress Grupp, AS Harju Elekter, AS Järvevana, AS Merko Ehitus, AS Premia Foods, AS Tallinna Kaubamaja, AS Tallinna Vesi and AS Trigon Property Development do not cover this CGC recommendation in their reports.

As the Financial Supervision Authority considers the compliance with this recommendation to be of utmost importance in order to ensure the credibility of an issuer, it recommends including the respective negative confirmation to the report if there occurred no conflicts of interests during the reporting period.

IV. Publication of information

CGC 5.2. The website of the Issuer shall be clear in structure, and published information shall be easy to find. Published information shall also be available in English. The Issuer shall publish the disclosure dates of information subject to disclosure (including the annual report, interim reports and notice calling a general meeting) at the beginning of the fiscal year in a separate notice, called the financial calendar. The Issuer shall also publish this notice on its website.

Upon controlling the evaluation made by the issuer on the disclosure of information requested by the CGC, the Financial Supervision Authority proceeded from the information disclosed on the websites of issuers as at the date of preparation of this overview.

AS Järvevana is in con-compliance with the CGC recommendations on the disclosure of information on the website, because the issuer still lacks the website. AS Järvevana states in its report that the disclosure of information is based on regulations of the NASDAQ OMX Tallinn Stock Exchange and that all objective and material data related to the activities of the company is published through the Stock Exchange system. The report provides no explanation of reasons for non-compliance of this CGC recommendation.

The Financial Supervision Authority considers it necessary to mention that, in addition to the compliance with requirements provided by Stock Exchange rules and regulations, the issuer is obligated to publish the information according to the Securities Market Act and the Commercial Code.

Arco Vara AS, AS Järvevana, AS Merko Ehitus, Trigon Property Development AS and AS Viisnurk disclose the failure to publish the financial calendar.

According to the explanation of AS Järvevana and AS Merko Ehitus, the disclosure of the so-called financial calendar would add the additional time factor to the deadlines and would endanger the prompt disclosure of information. AS Merko Ehitus states that the shareholders are informed of the publication of the interim report and annual report at least 2 days prior to the publication of the respective report.

Arco Vara AS, AS Trigon Property Development and AS Viisnurk justified the failure to prepare and publish a financial calendar with the fact that the issuer published all the information that was subject to disclosure in accordance with the deadlines established by legislation.

The Financial Supervision Authority saw no financial calendar on the website of AS Tallinna Kaubamaja, although the issuer did not mention the non-compliance with this CGC recommendation in its report.

AS Premia Foods discloses in the report that it did not publish the data on the issuer on the website in 2009, because the shares of the company were not listed.

AS Baltika, AS Ekspress Grupp, AS Harju Elekter and AS Tallinna Vesi do not cover the compliance with this CGC recommendation in their reports.

AS Baltika, AS Ekspress Grupp, AS Harju Elekter, AS Tallink Grupp and AS Tallinna Vesi have disclosed their financial calendars on their website. AS Tallinna Vesi was the only issuer who disclosed the financial calendar exactly pursuant to the CGC section 5.2, i.e. besides the deadlines for the publication of financial statements, the calendar includes also the planned date for holding the regular general meeting.

AS Silvano Fashion Group discloses in its report that the company's website includes the link to the website of the NASDAQ OMX Tallinn Stock Exchange where the company published all material information both in Estonian and English. The issuer states that it was in compliance with all relevant CGC provisions in 2009.

The Financial Supervision Authority did not find any reference on the website of AS Silvano Fashion Group to the information published on the website of the NASDAQ OMX Stock Exchange. The issuer's website included some, but not all, of the Stock exchange announcements disclosed by AS Silvano Fashion Group. In addition, the information disclosed on the issuer's website is only in English.

The Financial Supervision Authority maintains that the disclosure on the issuer's website of information only in English cannot be considered as the compliance with the CGC recommendation that requires the disclosure of information both in Estonian and English. Besides, the partial disclosure of information published pursuant to legislation as well as rules and regulation of the Stock Exchange in accordance with the CGC recommendation and requirements provided by the Securities Market Act. The information that is only partly disclosed in such a manner is difficult to be found by an investor and it is also misleading.

AS Tallink Grupp confirms in its report that it is in conformity to the CGC procedures on the disclosure of information and that all disclosed information is published on the issuer's website and on the website of the Tallinn Stock Exchange both in Estonian and English.

The confirmation of AS Tallink Grupp is not true, because the issuer's website is mostly in English, including the website structure as a whole and also the issuer's financial calendar. Only the issuer's stock exchange announcements and the information on the general meeting are available in Estonian; other information for investors is published in English. The Financial Supervision Authority considers that this practice does not ensure the equal treatment of investors and that the information disclosed by the issuer on its website may not be easily found or understood by an investor due to his/her poor command of English language.

CGC 5.3. *On the Issuer's website, the following shall be accessible to the shareholders:*

- *Corporate Governance Reports;*
- *Date, place and agenda of the General Meeting and other information related to the General Meeting;*
- *Articles of association;*
- *General strategy of the Issuer approved by the Supervisory Board;*
- *Membership of the Management Board and Supervisory Board;*
- *Information regarding the auditor;*
- *Annual reports;*
- *Interim reports;*
- *Agreements between shareholders concerning concerted exercise of shareholders rights (if those are concluded and known to the Issuer);*
- *Other information published on the basis of the Corporate Governance Code.*

The Financial Supervision Authority verified the conformity of information disclosed for shareholders on the website of issuers with the recommendation of CGC section 5.3 (the overview is provided in Annex 1). Upon preparing the overview, we proceeded from the requirement of CGC section 5.2 that the published information shall be easy to find. Information that could not be found on the website within a reasonable time is regarded as missing. The Annex includes objective information if published on the website, i.e. it does not take into account e.g. the fact disclosed in the issuer's report that there were no questions presented by the shareholders prior to the general meeting.

CGC 5.6. *The Issuer shall organize the exchange of information with journalists and the analyst after careful consideration. The Issuer shall refrain from compromising the independence of the analyst or the Issuer's independence from the analyst when communicating with analysts. The Issuer shall disclose the dates and places of meetings with analysts and presentations and press conferences organized for analysts, investors or institutional investors on its website. The Issuer shall enable shareholders to participate in the aforementioned events and shall make the presentations available on its website.*

Most of the issuers substantiate non-compliance with the recommendation by the fact that the meetings deal with information that has been already previously disclosed and the shareholders have the right to ask questions from the issuer. Even so, several of the issuers have published the presentations available on their website.

AS Baltika explains that the issuer has usually no competence to allow the participation of other shareholders in meetings organized with institutional investors and analysts. Internal procedures of institutional investors do not allow the participation of third parties in meetings with companies.

AS Järvevana discloses that due to difficulties in the publication of objective information of the company's court proceedings that is about to commence, it does not consider it necessary to participate in presentations and press conferences organized by analysts and investors.

Olympic Entertainment Group AS states in the report that there were no press conferences organized in 2009, and confirms that the dates, venues and presentations of future press conferences will be disclosed pursuant to the CGC recommendation. Similar confirmation was made also in the issuer's Corporate Governance report 2008.

AS Premia Foods discloses that it did not published the information for 2009 on its website, because the shares of the company were not listed during that period.

AS Silvano Fashion Group confirms in the report that it was in compliance with all relevant CGC provisions and that it ensured the equal treatment of shareholders. See section 5.2 of this overview for the comments of the Financial Supervision Authority on the publication of information by this issuer.

AS Ekspress Grupp does not cover this recommendation in its report. AS Tallinna Kaubamaja provides a general statement that it informs all shareholders of material fact on equal basis, by using both its own website and the information system of Tallinn Stock Exchange.

AS Tallinna Vesi discloses in the report that the issuer gives presentations at least twice a year and publishes the calendar on its meetings with investors as well as presentation materials on the issuer's website.

AS Tallink Grupp states in the report that it published the dates and venues of the most important meetings with investors and that the presentation drafted for investors is available on the issuer's website. The issuer discloses that it does not comply with the CGC recommendation to publish the date and place of each single meeting and that it does not allow all investors to participate in these meetings for practical reasons and due to technical difficulties in organizing such participation.

AS Trigon Property Development and AS Viisnurk do not consider it necessary to publish the schedule of meetings. They provide no explanation in their reports of reasons why they do not consider it necessary to comply with the CGC recommendation.

The Financial Supervision Authority maintains the position that, if possible, the interests of shareholders towards the information supplied at the meetings should be also considered. Participants in the meetings have a possibility to receive, from the direct representative of the issuer, comments, answers and additional explanations concerning the presentations.

V • Financial reporting and auditing

CGC 6.2.1. *Together with the notice calling the General Meeting the Supervisory Board shall make available to shareholders information on a candidate for auditor, including information on their business connections. If there is a desire to appoint an auditor who has audited the Issuer's reports during the previous financial year, the Supervisory Board shall pass judgement on their work. I—I*

I—I The assessment by the Supervisory Board for the work performed by the auditor shall describe, inter alia, the services (including advisory services) that the auditor has provided to the Issuer during the preceding year or shall provide during the next year or shall begin to provide to the Issuer over the following year. Also, the remuneration that the Issuer has paid or shall pay to the auditor shall be published. If the Supervisory Board makes a proposal to elect a new auditor it shall justify to the General Meeting its reasons for terminating the contract with previous auditor.

Arco Vara AS, AS Baltika, AS Harju Elekter, AS Järvevana, AS Merko Ehitus, Nordecon International AS and Olympic Entertainment Group AS cover this CGC recommendation in their reports.

Arco Vara AS discloses in the report that the Supervisory Board did not give a judgement on the activities of the auditor, because there were no negative aspects discovered in connection with the auditor's activities and therefore the Supervisory Board did not consider it necessary to make a separate presentation in the general meeting on the auditor's activities.

None of the issuers has disclosed in the Corporate Governance report the remuneration payable to the auditor. Even so, most of the issuers have dealt with that issue in their reports, disclosing that the auditor is paid remuneration in accordance with a contract concluded between the issuer and the auditor. AS Arco Vara and AS Olympic Entertainment Group do not disclose the amount of remuneration payable to the auditor, because in their opinion it does not influence the reliability of the auditor's reports. Arco Vara AS discloses in the report the total cost of internal and external auditing during the reporting period and, as a comparison, the total cost in 2008. AS Baltika does not disclose the amount of the remuneration, because this is not required by the Commercial Code and this would endanger the competitive position of the auditing company. AS Järvevana and AS Merko Ehitus have outlined as a reason their desire not to worsen the possibilities of the issuer to also buy the auditor service at a competitive price in the future. AS Harju Elekter discloses that the payment of remuneration to the auditor is based on the respective contract and that the amount of remuneration is not disclosed pursuant to the agreement between the parties.

AS Järvevana and AS Merko Ehitus state in their reports that upon making the proposal for the election of a new auditor, the Supervisory Board presents an explanation to the general meeting on reasons for such a change. If the contract with the former auditor is renewed, this decision confirms that the Supervisory Board is satisfied with the quality of services provided by the auditor.

AS Silvano Fashion Group and AS Tallink Grupp give a very general description on their financial reporting and auditing practices, presenting only a general confirmation that the issuer prepares its financial reporting according to international financial reporting standards adopted by the European Union and that the disclosure of financial information proceeds from Estonian legislation and the rules and regulations of the NASDAQ OMX Tallinn Stock Exchange.

AS Tallink Grupp states in the report that the notice calling the general meeting includes the name of the candidate and that the remuneration paid to the auditor is provided by the contracts signed between the issuer and the auditor. This contract also includes the list of auditor's duties.

The Financial Supervision Authority maintains that this statement is pointless and insufficient, because the report does not mention directly whether the issuer complies with the CGC recommendation to publish the information on the candidate auditor and the judgement of the Supervisory Board on the activities of the former auditor as well as the remuneration paid to the auditor. Based on the working of the report, it can be assumed that the issuer did not comply with the CGC recommendation; in that case the con-compliance should be clearly stated and explained.

Nordecon International AS states in the report that the Management Board of the issuer organizes a competition for finding the auditor; one of the objectives is to agree on the best auditing fee under comparable conditions. The issuer confirms in the report that it complied with CGC recommendations on financial reporting and auditing in 2009. Thus, it can be assumed that the issuer followed all recommendations of VI Chapter of the CGC, including the section 6.2.1.

In addition, the notice of Nordecon International AS calling the general meeting that was held in 2009 did not include the information on the remuneration paid to the auditor. The notice included the judgement of the Supervisory Board to the activities of the former auditor as well as the proposal to elect the same auditor for auditing the subsequent reporting period.

Olympic Entertainment Group AS discloses in the report that the Supervisory Board presents the information on the candidate auditor to shareholders together with the notice calling the general meeting. However, the name of the candidate auditor was the only information on the election of auditor that the Financial Supervision Authority discovered in the notice calling the general meeting. The notice lacked other information required by the CGC recommendation on the candidate auditor and the Supervisory Board did not explain the reasons for terminating the contract with the former auditor.

AS Ekspress Grupp, AS Premia Foods, AS Silvano Fashion Group, AS Tallinna Kaubamaja, AS Tallinna Vesi, AS Trigon Property Development and AS Viisnurk do not cover this recommendation in their reports.

As AS Trigon Property Development and AS Viisnurk confirm in their reports that the issuer's activities comply in all other aspects (except the CGC sections mentioned in the report) with the requirements provided by CGC, it can be assumed that these issuers complied with the recommendation in 2009.

Still, not all of the notices calling the general meeting, published by issuers in 2009, contain the information on a new auditor or the judgement given by the Supervisory Board to the auditor, including the remuneration paid to the auditor, as specified in CGC section 6.2.1.

As a rule, the notice calling the general meeting sets out the name of the auditing company that is proposed to be elected as an auditor of the company. In general, no other information has been specified and it has not been mentioned whether the auditor mentioned in the notice is new or is continuing his activities as the auditor of the issuer.

The general meeting 2009 of AS Ekspress Grupp did not discuss the election of the auditor; therefore, it is not possible to evaluate the issuer's compliance with this CGC recommendation during that reporting period.

Only Nordecon International AS and AS Tallinna Vesi published the judgement of the Supervisory Board to the auditor's activities in the notice calling the general meeting.

AS Järvevana and AS Merko Ehitus state that the continuance of a contract with the auditor should be interpreted as a confirmation of the Supervisory Board that they are satisfied with the selection of the auditor and the quality of provided services.

In the opinion of the Financial Supervision Authority, the explanation cannot be considered sufficient that the auditors are paid remuneration according to the concluded contract, because it does not actually substantiate the grounds for refusal to disclose the remunerations. In the opinion of the Financial Supervision Authority, the issuers should also draw more attention to the work of the auditor when giving their judgement.

CGC 6.2.3. Upon organizing the rotation of auditors, the Issuer shall comply with guidelines of the Financial Supervision Authority from 24 September 2003, "Rotation of auditors of certain entities under state supervision".

§ 59(3) of the new Authorised Public Accountants Act that entered into force on 8 March 2010 provides the compulsory rotation of auditors of listed issuers in every 7 years.

Corporate Governance reports 2009 did not disclose and discrepancies from the rotation principle of auditors.

CGC 6.2.4. Pursuant to the contract the auditor undertakes to disclose to the Supervisory Board and at the General Meeting the facts, which become evident to him during the course of the exercising of a regular audit, indicating non-compliance with the Corporate Governance Code by the Management Board or the Supervisory Board. The Auditor shall prepare a memorandum to the Issuer regarding these facts along with the auditor's report. The auditor shall not reflect in the memorandum the facts that the Management Board has explained in the Corporate Governance Report.

None of the issuers has specified compliance with this section in the Corporate Governance reports for 2009. The Financial Supervision Authority has not examined the contents of contracts concluded by issuers with auditors, but recommends that the issuers review the auditor contracts and, if necessary, enter into negotiations with auditors in order to add to the contracts a clause that provides for the making of observations by the auditor regarding compliance with CGC together with the submission of the relevant memorandum.

Annex I

• Publication of information specified in CGC 5.3 on the websites of issuers

	Corporate Governance report	Data of general meeting 2.2.7)	Articles of association	Strategy	Membership of the Management/ Supervisory Board	Auditor	Financial statements	Agreements of shareholders
Arco Vara AS www.arcorealestate.com	+	+	+	-	+	+	+	-
AS Baltika www.baltika.ee	+	+	+	+	+	+	+	-
AS Ekspress Grupp www.egrupp.ee	-	-	-	-	+	-	+	-
AS Harju Elekter www.harjuelekter.ee	+	+	-	-	+	+	+	-
AS Järvevana (veebileht puudub)	-	-	-	-	-	-	-	-
AS Merko Ehitus www.merko.ee	+	+	+	-	+	+	+	-
Nordecon International AS www.nordecon.ee	+	+	+	+	+	+	+	-
Olympic Entertainment Group AS www.olympic-casino.com	+	+	+	-	+	+	+	-
AS Premia Foods www.premiafoods.eu	-	-	+	-	+/-	-	+	-
AS Silvano Fashion Group www.silvanofashion.com	O	+	-	-	+	-	+	-
Tallinna Kaubamaja AS www.kaubamaja.ee	-	+	-	-	+/-	-	+	-
AS Tallinna Vesi www.tallinnavesi.ee	+	+	+	+	+	+	+	-
AS Tallink Grupp www.tallink.com	O	V	+	+	+	-	+	-
AS Trigon Property Development www.trigonproperty.com	-	+	+	+	+	+	+	-
AS Viisnurk www.viisnurk.com	+	+	+	-	+	+	+	-

O The Corporate Governance report published separately on the website is not identical with the Corporate Governance report approved as a part of the management report of the accounting year 2009.

V 2009 data is missing; only 2010 data is published.

	Shareholders' questions/answers (section 1.1.1)	Remuneration of Management Board members (section 2.2.7)	Committees established by Supervisory Board (section 3.1.3)	Financial calendar (section 5.2)	Information presented by analysts during press conferences (sections 5.5 and 5.6)	Calendar of meetings/press conferences
Arco Vara AS www.arcorealestate.com	+	-	-	-	-	-
AS Baltika www.baltika.ee	-	-	-	+	+	-
AS Ekspress Grupp www.egrupp.ee	-	-	-	+	-	-
AS Harju Elekter www.harjuelekter.ee	*	-	-	+	+	-
AS Järvevana (veebileht puudub)	-	-	-	-	-	-
AS Merko Ehitus www.merko.ee	-	-	-	-	-	-
Nordecon International AS www.nordecon.ee	-	-	-	+	+	-
Olympic Entertainment Group AS www.olympic-casino.com	-	-	-	+	-	-
AS Premia Foods www.premiafoods.eu	-	-	-	-	-	-
AS Silvano Fashion Group www.silvanofashion.com	-	-	-	-	+	-
Tallinna Kaubamaja AS www.kaubamaja.ee	-	-	-	-	-	-
AS Tallinna Vesi www.tallinnavesi.ee	-	-	-	+	+	-
AS Tallink Grupp www.tallink.com	-	-	-	+	+	-
AS Trigon Property Development www.trigonproperty.com	-	-	-	-	-	-
AS Viisnurk www.viisnurk.com	-	-	-	-	-	-

* There are no questions or answers published, although there is the respective section.

Annex II

• Proposals for amending CGC in relation to legislative amendments

1. To delete the first and the second sentence of the CGC section 1.1.3 as follows:

~~"1.1.3. Issuers shall facilitate the personal participation of shareholders at the General Meeting, but shall not make it difficult for representatives to participate in and vote at the General Meeting. The Issuer shall notify shareholders as precisely as possible regarding the date, time and address of the General Meeting.~~

If an Issuer itself or by his employees/representatives organizes the representation of a shareholder at a General Meeting, it shall do so in such a manner that the orders given by the shareholder with regard to voting are executed.

The representative of the Issuer shall participate in the General Meeting and shall be accessible to the shareholders during the holding of the General Meeting."

The first sentence of section 1.1.3 is indirectly regulated by paragraphs 4 and 4¹ of § 297 of the applicable Commercial Code; the second sentence of section 1.1.3 is regulated by paragraph 4(2) of § 294 of the applicable Commercial Code and the last sentence of the second indent of CGC section 1.1.1.

2. To delete the first indent of the CGC section 1.2.1 as follows:

~~"1.2.1. Notice calling the General Meeting shall be sent to shareholders and/or published in daily national newspaper concurrently with making it available on the Issuer's website:~~

The Issuer shall notify shareholders regarding the calling an extraordinary General Meeting immediately after deciding to call the General Meeting. The notice shall indicate the reason for calling the Extraordinary Meeting and who made the proposal to call it (e.g., management board, supervisory board, shareholders or auditor). Information concerning the Extraordinary Meeting shall be immediately published on Issuer's website."

The first indent of the CGC section 1.2.1 is regulated by § 294¹ of the applicable Commercial Code and therefore is not necessary to repeat it in the CGC.

3. To delete the first and the second indent of the CGC section 1.2.2 as follows:

~~"1.2.2. The Management Board and Supervisory Board shall deliver all information available to them or essential information provided to them necessary for passing a resolution at the General Meeting to shareholders concurrently with the notice of calling the General Meeting.~~

~~Issuers shall provide the reasons for calling the General Meeting and explanations for items included on the agenda, determining changes essential to shareholder (for instance changing the articles of association, issuance of additional shares or other securities associated with shares or extraordinary transactions the content of which is the sale of all or a majority of the assets of the company or which are concluded with a person related to the Issuer). If the General Meeting is called by shareholders, the Supervisory Board or auditor or if an item has been entered on the agenda at the request of the Management Board or a shareholder, the bodies or persons requesting the calling of General Meeting or entering an item on the agenda shall provide their reasons and explanations.~~

The shareholders shall be permitted to examine information regarding questions shareholders have presented to the Issuer in connection with the holding of the General Meeting if this information is connected with an agenda item of the General Meeting. The Management Board or Supervisory Board has the right to withhold this information, if this is in contravention of the Issuers interests. In such case, the Management Board and Supervisory Board shall justify the withholding of the information.

Information to shareholders must also be provided in Estonian."

The first indent of the CGC section 1.2.2 is regulated by paragraph 4¹ of § 294 and § 294¹ of the applicable Commercial Code. The second indent of the CGC section 1.2.2 is regulated by § 293¹ of the applicable Commercial Code.

4. To delete the whole section 1.2.3 of the CGC:

~~"1.2.4. Within a reasonable period of time prior to holding a General Meeting the Supervisory Board shall publish its proposed agenda items on the Issuer's website.~~

~~If shareholders make substantive proposals to items on the agenda or proposals diverging from those of the Supervisory Board prior to the General Meeting the Issuer shall publish the proposals on its website."~~

The first indent of this section is regulated by paragraph 5 of § 294 of the applicable Commercial Code, and the second indent is regulated by paragraph 4 of § 293¹ of the applicable Commercial Code.

5. To delete the whole section 1.3.3 of the CGC:

~~"1.3.3. Issuers shall make participation in the General Meeting possible by means of communication equipment (Internet) if the technical equipment is available and where doing so is not too cost prohibitive for the Issuer."~~

The CGC section 1.3.3 is provided by § 290¹ and § 298¹ of the Commercial Code. Although the CGC provision seems to be more precise (i.e. the issuer shall make it possible, if it is not too cost prohibitive for him), the use of communication equipment during the general meeting is ultimately decided by the holder of the meeting ("too cost prohibitive" is a subjective term used in the CGC) or provided by the articles of association.

6. To delete the whole section 2.1.2 of the CGC:

~~"2.1.2. The Management Board shall use its best efforts to ensure that the Issuer and all companies belonging to Issuer's group shall comply in their activities with current legislation in force."~~

This section is in essence covered by the due diligence of a prudent operator that is provided in paragraph 1 of § 315 of the Commercial Code. Also, the compliance with legislation is the presumption underlying the modern society.

7. To amend the CGC section 6.1.2 as follows:

~~"6.1.2. The Issuer shall publish an annex of the annual accounts including in its management report a list of companies not belonging to the Issuer's group, in which the holding of Issuer has significant importance to the Issuer is has a qualifying holding. Besides the name, the The Issuer shall disclose the business name, location, and size of such company the holding, area of activity, amount of share capital, and net profit or loss during the previous financial year of this company, and the amount of its holding in this company."~~

The first sentence of the CGC section 6.1.2 is regulated by paragraph 4 of § 24¹ of the applicable Accounting Act, providing that qualifying holdings shall be reported in the management report of Issuers, whose securities have been admitted for trading on the regulated securities market, according to § 9 of the Securities Market Act. The second sentence of the CGC section 6.1.2 specifies the scope of provided disclosure obligation.

8. To delete the second sentence of the first indent of the CGC section 6.2.2 as follows:

~~"6.2.2. Before entering a contract for auditing services with an auditor, the Management Board shall present the Supervisory Board with the draft contract for approval. In a contract to be concluded with an auditor, above all the auditor's functions, timetable and remuneration shall be agreed upon. The Issuer shall not conclude a contract, indicating that disclosure of remuneration payable for auditing is breach of contract. ..."~~

The second sentence of the first indent of the CGC section 6.2.2 is provided by paragraph 2 of § 55 of the applicable Authorised Public Accountants Act.

9. To delete the whole section 6.2.5 of the CGC:

~~"6.2.5. The General Meeting, Supervisory Board and Management Board shall enable auditor to carry out the auditing according to international auditing standards."~~

The CGC section 6.2.5 is regulated by § 45 and § 46 of the new Authorised Public Accountants Act, and therefore there is no need to include the identical provision in the CGC.

Annex III

Principles of the Audit Committee

1. General

The Supervisory Board or another higher management body, if the Supervisory Board is missing, (hereinafter in both cases “**the Board**”) shall establish the principles for the formation, remuneration and work organization of the Audit Committee.

The objective of this guide is to assist the listed company in establishing, remuneration and organization of the work of the Audit Committee, as well as to assist members of the Audit Committee in performing their duties.

The Supervisory Board of a listed company shall design the Committee that is the best for the company. The design of the Committee shall consider the size, activities and risk profile of the company.

Audit Committee is the advisory forum for the Supervisory Board.

Disputes between the members of the Audit Committee shall be settled by the Supervisory Board, unless the latter has not provided otherwise.

Management bodies are obligated to actively ensure that the Audit Committee has sufficient information for performing its duties. The Audit Committee is not obligated to perform the duties of management bodies, and it is not responsible for performing such duties.

2. Structure of the Audit Committee

2.1 Members of the Audit Committee

Independent members of the Supervisory Board or persons who are not related to the listed company and who meet the requirements of an independent member of the Supervisory Board shall form at least half of the members of the Audit Committee. The vote of such a person shall be decisive when votes are evenly split or decisions on other voting thresholds or structures are made.

Members of the Audit Committee are appointed for up to three years; this period may be extended to two additional three-year periods.

2.2 Meetings of the Audit Committee

Chairman of the Audit Committee shall determine the frequency and duration of these meetings. The frequency and duration of these meetings shall correspond to the duties of the Audit Committee. At least three meetings shall be organized during a financial year.

Only members of the Audit Committee are entitled to participate in these meetings, unless the Committee decides otherwise. Such other decisions are assumed to be made in respect of the participation of the sworn auditor who audits the company as well as the financial manager of the company.

The Audit Committee shall meet with the auditor and the internal auditor (if available) at least once a year. Such a meeting shall encompass the discussion of the performance of duties and problems revealed during audits or internal audits.

2.3 Financing the activities of the Audit Committee

Listed companies shall provide adequate financing for the activities of their Audit Committee. Financing shall be sufficient in order to enable the Audit Committee to purchase legal, accounting or other services that are independent from the Management Board of the company.

The Audit Committee is entitled to use the office of the company, including the services of an assistant for planning, calling, holding and documenting meetings. Members of the Audit Committee shall receive remuneration and training that correspond to their duties, also taking into account the remuneration paid to members of management bodies.

Members of the Audit Committee should be experienced in financial matters of the business. Listed companies shall ensure that new members of the Audit Committee are briefed in respect of their duties, rights and responsibilities.

3. Duties of the Audit Committee

3.1 Monitoring and analysing of the processing of financial information

The Audit Committee shall review all material problems and assessments in respect of compiling financial statements of the company. The Audit Committee shall review the Annual Report of the financial year and present its opinion to the Supervisory Board before the Supervisory Board prepares the written report pursuant to § 333 of the Commercial Code.

The Audit Committee shall perform the evaluation of accounting rules and their amendments. The Management Board informs the Committee of methods and procedures that are used for treating material or extraordinary transactions, especially when different methods or procedures can be used.

The Audit Committee shall assess whether the accounting rules of the company are adequate, taking into consideration the opinion of the auditor.

The Audit Committee shall inform the Supervisory Board of all problems that have not been eliminated by the Management Board, and of all other issues regarding the financial reporting or accounting rules that have remained unsolved or that have been solved but the solution does not satisfy the Audit Committee.

This does not eliminate the responsibility of the Management Board for the accuracy, completeness and correctness of financial statements and their disclosure.

3.2 Monitoring and analysing of the efficiency of risk management and internal control

The Audit Committee shall monitor the functioning and efficiency of systems and processes that have been put in place for defining, evaluation, management and monitoring of financial risks, as well as the functioning and efficiency of internal control.

The Management Board shall provide the Audit Committee with regular overviews on the functioning of above-mentioned systems and processes as well as internal control, and on the results of testing these system and processes.

If there is no separate internal audit function within the company, the Audit Committee shall evaluate the situation on an annual basis and present the recommendation regarding this situation to the Supervisory Board. While evaluation the need for such internal audit function, the Audit Committee shall consider the size, activities and risk profile of the company, trends in the company's activities, on the markets and in other external environment factors, as well as other circumstances that increase or might increase the company's risks. Increase in the risks may also be caused by internal factors (changes in the organization, reporting lines, IT-systems, etc.).

When evaluating the function of internal audit, the Audit Committee shall monitor and analyse whether this function is adequately financed and has access to information that is necessary for performing relevant duties. In addition, it shall evaluate whether the performer of internal audit function has access to the Chairman of the Management Board, the Chairman of the Supervisory Board and the Audit Committee, whether the performer must monitor and analyse the annual work plan, have a regular overview of work, monitor and analyse the reactions of the Management Board to findings and recommendations of the internal audit function as well as the role and efficiency of the internal control in the company's general risk management system.

The Audit Committee shall meet with the manager of the performer of internal audit function at least once a year, without the presence of a member of the Management Board or another person who is part of the management.

3.3 Monitoring and analysing the auditing process of annual accounts or consolidated accounts; monitoring and analysing of the independence of the auditing company and the sworn auditor who legally represents the auditing company, as well as of the compliance of its actions with requirements of the Authorised Public Accountants Act

Main tasks of the Audit Committee include the following: making of recommendations to the general meeting of shareholders, whether via the Supervisory Board or directly, for defining the number of external auditors as well as for the appointment and withdrawal of external auditors, and making of recommendations on the remuneration of auditors as well as on specific rates. If the Management Board, the Supervisory Board or the general meeting of shareholders does not approve the recommendation, it shall provide reasons for the non-approval and disclose them in the company's Annual Report.

The Audit Committee shall assess the skills, experiences and possibilities of an external auditor as well as the efficiency of the auditing process on an annual basis. Before the commencement of audit, the Audit Committee shall assess its scope and other conditions as well as present its opinion on this matter.

The Audit Committee shall perform annual evaluations regarding the independence and objective behaviour of an auditor. It shall consider all relations with the listed company that affect or might affect the independence and objective behaviour. Primarily, the Audit Committee shall focus on situations where former managers or employees of listed companies perform the duties of an auditor, as well as on situations where (former) auditors are recruited as managers of employees of a listed company.

The Audit Committee shall provide a recommendation to the Supervisory Board, elaborating the manner of treating the Authorised Public Accountants Activities and the provision of other services besides the revision by the auditor, in order to avoid their negative impact on the independence and objective behaviour of the auditor when performing its auditing and revision duties. The Annual Report shall include a section describing the ways how the objective behaviour and independence of the auditor is ensured while performing auditing and revision functions in a situation where the auditor provides also other services to the listed company and the group.

The Audit Committee shall make certain before the commencement of an audit or revision that there is an adequate work plan for such audit or revision. The Audit Committee together with the external auditor shall review the findings, discuss main problems (both solved and unsolved) that have been revealed during the audit with the auditor, and examine relevant accounting, revision and audit assessments as well as the auditor's memorandum to the management of the listed company.

The Audit Committee shall assess the effective performance of audits and revisions, especially whether the auditor complied with the agreed work plan, and whether the auditor was sufficiently professional and accurate in considering material accounting and audit assessments, answering the questions presented by the Audit Committee and evaluating the internal control system.

4. Relations of the Audit Committee with management bodies and the general meeting of shareholders

4.1 Relation of the Audit Committee with management bodies

The Supervisory Board shall provide the specific duties and role of the Audit Committee. The Audit Committee shall report to the Supervisory Board. The Supervisory Board shall assess the efficiency of the Audit Committee on an annual basis.

The Audit Committee shall perform an evaluation of principles of its work organization and of the efficiency of its activities on an annual basis. The Audit Committee shall present an application to the Supervisory Board for amending its work organization, if necessary.

Disputes between the Supervisory Board and the Audit Committee shall be discussed and solved within an adequate time frame.

4.2 Relation of the Audit Committee with the general meeting of shareholders

Principles of the establishment, remuneration and work organization of the Audit Committee shall be available to the shareholders.

The Annual Report shall include a description of the establishment, remuneration and work organization of the Audit Committee as well as the performance of relevant duties by the Committee in the respective financial year. The Annual Report shall provide at least the information on the Audit Committee's duties, full names and positions of its members, the number of meetings of the Audit Committee during the financial year, short description of performing the main duties, including the information on whether the auditor provided non-auditing services to the company and how are the objective behaviour and independence of the auditor ensured.

The Audit Committee shall be entitled to inform the general meeting of shareholders via the Annual Report of its disputes with the Supervisory Board, if such disputes have not been solved before the meeting.

The representative of the Audit Committee (desirably the Chairman) shall participate in regular general meetings of shareholders, as well as provide answers to questions of the Chairman of the general meeting on the activities of the Audit Committee and on the performance of its duties.