



# 2012

Yearbook



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# Information to the Shareholders

## Annual General Meeting

The AGM of shareholders of Harju Elekter will take place on May 9 2013, at 10 a.m. at the hall of the Keila Culture Centre, Keskväljak 12, Keila.

## Dividends

The Management Board of Harju Elekter makes a proposal to pay a dividend of € 0.09 per share for the financial year 2012. The list of shareholders who are entiteles to dividends will be closed on May 23, 2013 at 11.59 p.m. The dividends will be transferred to the bank accounts of shareholders on May 28, 2013.

## The Publication of Financial Reports in 2012

Harju Elekter informs you that in the year 2012, the consolidated financial results of AS Harju Elekter will be published as follows:

2013 1Q results 07.05.2013  
2013 2Q results 07.08.2013  
2013 3Q results 06.11.2013

After their release through the stock exchange information system all Harju Elekter's announcements are also available on company's internet homepage at <http://www.harjuelekter.ee>



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Endel Palla  
*Chairman of the Supervisory Board*

The Group  
has been noticed  
and recognised  
by the owners as well  
as by public

In 2012 the net sales of the Group continued to grow. The production of electrical equipment in Estonia exceeded the level of the pre-crisis year 2008. The brainwork of engineers and good sales skills have helped to increase the sales outside of Estonia. The Group has entered into new markets all over the world: Australia, North America, the Far East and new countries in Europe.

We have started to think “green”. We use solar power to produce electricity for all our production plants in Estonia, Finland and Lithuania. In Finland we are the market leaders for producing car pre-heating panels for parking lots. The Group is planning to start also the production of “smart” loading panels for electric cars.

No doubt that the annual intra-group innovation competition for developing new products and solutions has had a positive effect on the development of the Group, as well as on the motivation of engineers working here. By addressing the subject of innovation the

Group has ensured a higher technical level of the company's products, increased productivity and found new customers.

2012 was a kind of anniversary year for the Group. 20 years ago Harju Elekter founded such joint enterprises as ABB Harju Elekter (15 September), Draka Keila Cables (14 December) and Glamox HE (15 December). All of them have become strong and successful companies operating in the Keila Industrial Park. The vehicle wiring plant, PKC Eesti, founded by the Group has been recognised as the most successful company in Estonia. Ten year ago, on September 19, we bought our Finnish subsidiary, Satmatic Oy. In autumn 2013 forty five years will pass since the beginning of the production of electrical equipment in Keila. This could justifiably be considered as the foundation of the Group. We are proud that thanks to our persistent work we have been able to create in Keila more than 2,000 jobs that altogether turn out production for value that exceeds 300 million euros.

Harju Elekter belongs among these large enterprises whose continuous development and stability ensure high levels of employment. As a large enterprise we feel that it is our responsibility to ensure the sustainable development of the Group in order to contribute to the reinforcement of the country's economy.

Stock prices on the Estonian security market started to increase last year and so did the prices of shares of AS Harju Elekter increasing within a year by 15.8% up to 2.64 euros. During unstable times the fact that our shares are stock dividend shares is even more important than the fluctuation in the prices of shares. AS Harju Elekter has been one of the few publicly traded companies who have paid dividend to its shareholders all the time it has been listed on the stock exchange. The list of shareholders that increases year by year shows that a lot of people value highly the trustworthiness and the stable dividend policy of the company.

The successful operation of AS Harju Elekter as an international Group and manufacturing enterprise has been noticed and recognised. The Harju county governor awarded AS Harju Elekter with the title "Company of the year" and gave the manager of the company the honorary decoration of the county.

*On behalf of the Supervisory Board I would like to thank all our customers, partners, shareholders and employees.*



**Endel Palla**  
*Chairman of the Supervisory Board*



Andres Allikmäe  
*Managing Director/CEO*

## New opportunities lie in new reality

The world's diverse and unstable economic situation has accustomed us with the idea of the so called "new reality". Although some regions in the world have shown a swinging growth, it is not a general phenomenon. Most of the specialists are of the opinion that it is difficult to determine trends or estimate possible developments in Europe i.e. on the market that is still extremely important to the world's economy as well as for Estonia. However, perspectives seem quite good and the solutions for these problems are mainly in our own hands. Maybe it is the new reality that we have to get used to and learn to deal with, as well as find new opportunities from it.

The year 2012 was successful for the Harju Elekter Group. The net sales of the Group were the second best of all times increasing by 13% and amounting to 52.8 million euros. The operating profit that was influenced by the instability of markets, as well as customers' decisions driven by the tough competition remained at the same level as in the previous year. However, we were able to increase our consolidated net sales by 22% to 3.6 million euros. The net profit per share

increased from 0.17 euros to 0.21 euros. The Group observed and managed cash flows carefully and, therefore, by the end of the year we were practically free of debts. We only used short-term credits to support our operation.

While seeking growth and new business opportunities we have focused more on Scandinavian markets. Thanks to several successful projects we have extended and intensified our geographical scope. Ukraine and Switzerland were entered as new markets. The business was most successful in Sweden, Germany and Belorussia. Our home market remained stable.

The year 2012 was eventful as all other years before that. The Group participated in the construction of the largest integrated biogas plant in the world with the capacity of 140 MW opened in Finland last year. The Group increased substantially its production and sales in the area of renewable and green energy equipment. More electricity for self-consumption was produced on the basis of solar energy which may be moderate in terms of the whole consumption but is still important as a benchmark. The total capacity of the relevant equipment used in the Group amounted to 100 kW. The electrical engineering development carried out in the Keila production centre was consolidated into the Development Centre. This gives a good opportunity to focus more on customer service and innovation activates. In autumn we will celebrate several important events – the 15th anniversary of AS Harju Elekter being listed on the Tallinn Stock Exchange and the 10th

anniversary of the merger of the Finnish subsidiary, Satmatic Oy, with the Group. The Group increased its share in its Lithuanian subsidiary to 63%.

Harju Elekter has supported technical higher and vocational education for years. In order to promote professions related to electricity and to improve the professional knowledge and skills of our personnel we have been a long-term sponsor and co-operation partner of the Development Fund of the Tallinn University of Technology and we participate actively in the work of professional and business associations.

The year 2013 is the 45th year of operation of Harju Elekter Group. All these years we have been a direction indicator in the area of production of electrical installations and materials offering its customers the best technical solutions, uncompromising quality and the development supporting their activities. We have learnt a lot from our customers and partners. Constant learning, know-how and continually accumulating experience will ensure our success in the future.

I would like to thank our customers and partners for the co-operation that has been successful for all parties. I would also like to acknowledge and thank all our employees in every company of the Group. My gratitude also goes to the shareholders of AS Harju Elekter for their trust and continuous support and I hope that our co-operation continues to be successful also in the forthcoming years.



**Andres Allikmäe**  
*Managing Director/CEO*



# Organisation

AS Harju Elekter have been manufacturing electrical equipment since 1968. The Group's main income comes from energy distribution equipment (substations, cable distribution and fuse boxes) and automatic control boards for the energy sector, industry and infrastructure. 66.4% of the products are marketed outside Estonia.

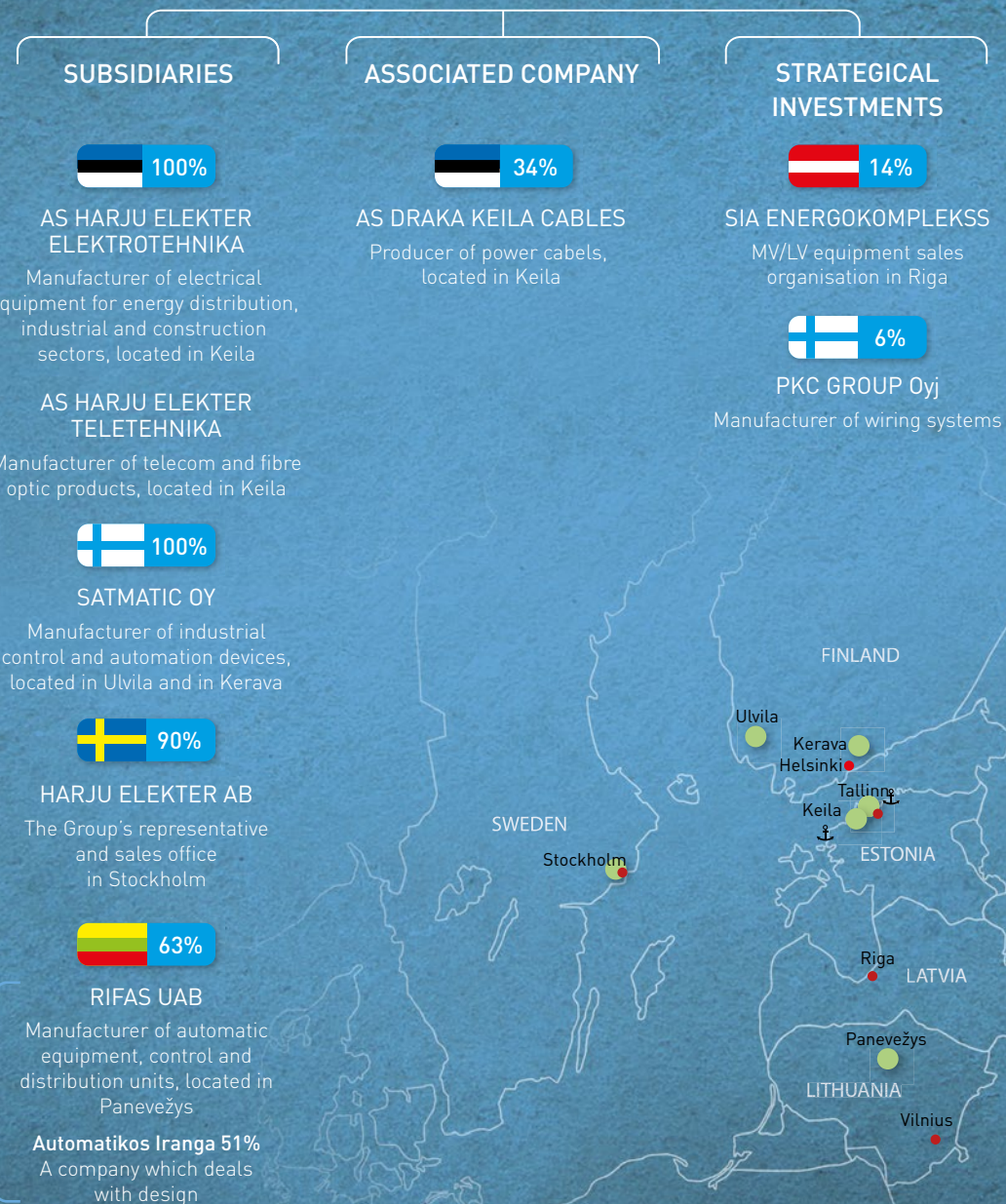
## Mission

To be one of the leading manufacturers of electrical equipment and materials in the Baltic Sea region by responding to the clients' needs without delay with competence and quality and by offering added value and reliability to partners in co-operation projects.

## Goal

To be successful over a long period of time, to increase the company's capital and generate revenue for the owners, as well as the partners, and to provide motivating work, income and development opportunities for the employees.

## AS HARJU ELEKTER



● Harju Elekter Group companies



# Overview of the Economic Environment

## Global economy

The world's economic growth slowed down in the second half of 2012. However, the changes were uneven by region. While the economic situation deteriorated in Europe and Japan, the American and Chinese economies seemed to be gaining strength. The overall uncertainty caused by such events as the euro crisis, the budgetary policy problems in the USA, the changes in the administration of China and the situation in the Far East had quite a strong impact. The global weakness had its impact also on the economies of Nordic countries. Consumers were constricted, on one hand, by high employment rate and, on the other hand, by relatively high inflation of 3.5%. The dollarexchange rate and the world market fuel prices remained stable but the prices of metals and agricultural products increased. The year 2012 was successful for financial markets. Nearly all major asset classes and markets show a positive productivity with the only exception of the asset class of raw materials.

## Euro-area

The year ended with optimistic feelings for the euro zone – the stories about the sudden collapse of the euro faded away, several institutional achievements were made and a cornerstone for the banking union was laid. Despite the continuation of the slowdown of the economic growth in Europe and the highest unemployment rate ever in Southern Europe the confidence in the economy started to increase in the end of the year thanks to successful measures taken to resolve the EU debt crisis. Several factors referred to the positive effect of the rescue packages – euro exchange rate increased and the interest rates of bonds issued by Southern European countries suffering from economic difficulties declined. The crisis resolution policy of the European Central Bank that was based on the cheap money offer reduced the 6 months Euribor rate within a year from 1.62 to 0.32 percent. The economic recovery has been estimated for Nordic countries and also for the rest of Europe during the second half of the next year but this is preconditioned by the gradual resolution of the depth crisis. According to the preliminary data of the European Central Bank the economic growth of the euro zone in 2012 was 1.5–1.7%.

◀ The American and Chinese economies seemed to be gaining strength

◀ The year 2012 was successful for financial markets

◀ The economic recovery has been estimated for Nordic countries and also for the rest of Europe during the second half of the next year

## Latvia, Lithuania, Russia

Bank analysts are of the opinion that the economic growth of more than 3% in the Baltic states is a pleasant surprise within the context of overall slowdown characteristic of Europe and Scandinavian countries. The economies of Scandinavian countries were hindered by the brittle external demand and weaker domestic economy. The problems were made worse by the pressure to the labour costs. The continuation of the overall economic situation in the EU and euro zone deteriorates the economic conditions of our main trade partners – Nordic countries – even more. One positive aspect is that in August 2012 Russia became a member of the World Trade Organisation (WTO) which will hopefully make the trade with Russia more open, better predictable and more stable. Another important change for the whole economic region is that Latvia will become a member of the euro zone in 2013 after complying with all conditions for full membership.

## Estonia

Compared with the previous years the economic growth in Estonia showed signs of slowing down in 2012. However, according to the preliminary data it was still the highest in the euro zone amounting to 3.2%. High investment activity, intensive internal consumption and export were the main drivers of the economy. Processing industry contributed a lot in the economic growth although the production was limited by insufficient demand and the decline in orders. According to the data of the Statistical Office exports increased by 4.5% compared with 2011 and the export capacity amounted to the all-time 12.6 billion euros. Imports increased by 8.5% a year amounting to 13.8 billion euros.

The economic growth was encouraged by the increase in the income of population which contributed to the increase in consumption expenditures and ensured the stable internal demand. Insofar as the unemployment rate in Estonia is more or less stable and the wages are growing little by little it can be estimated that internal demand will keep the economy going. The further economic growth will still be dependent on the recovery of the external demand in the west and its continuation in the east.

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# Year 2012

➤ In addition to the exciting 51% of shares of its Lithuanian subsidiary, UAB Rifas, AS Harju Elekter acquired another 11.7% of its shares increasing its share up to 62.7%. The contract was concluded on 30.11.2012 and the transaction was closed on 5.12.2012.

➤ In September 10 years passed since Satmatic Oy joined the Harju Elekter Group. On 19.09.2002 AS Harju Elekter and Siemens Oy signed a contract of sale by which Harju Elekter acquired 100% of the shares of the subsidiary of Siemens Oy. During the past 10 years the net sales of Satmatic Oy have increased from 7 million to 21 million euros and the number of employees from 52 to 88.

➤ After successful audits, the Lithuanian subsidiary, Rifas UAB, was recognised as an official co-operation partner and supplier of such international corporations as ABB and GE Energy.

➤ In September 15 years had passed since the listing of AS Harju Elekter on the Tallinn Stock Exchange. During the 15 years as a publicly traded company the Group has become a leading producer of electrical installations and materials in the Baltic Sea area and increased its volume of sale and operating profit by 10 times. The market value and the share price of the company have increased more than three times. AS Harju Elekter has been one of the few publicly traded companies who has every year paid dividend to its shareholders since being listed on the Tallinn Stock Exchange.

➤ In 2012 the largest integrated biogas plant in the world with the capacity of 140 MW was built in Finland, Vaskiluoto. The plant was built by Metso Oy and our Finnish subsidiary Satmatic Oy supplied it as a subcontractor with the relevant solutions and installations. The Estonian subsidiary of the Group, AS Harju Elekter Elektrotehnika, was involved in the same project producing prefabricated distribution substations and control panels for the biogas plant. The construction of this kind of environmentally friendly power stations will be a growing trend in the near future.

➤ The Finnish subsidiary Satmatic Oy increased the sales of solar energy equipment and solutions. This is supported, on one hand, by the 25% price drop of solar panels and other renewable energy equipment that has substantially expanded the clientele of such products, and on the other hand, by the increase in efficiency of such equipment and the entry into force of rules governing the energy performance of buildings. The production segment of pre-heating systems of cars for parking lots and loading panels for electric cars where Satmatic Oy has occupied the position of the Finnish market leader is also showing substantial growth.

➤ In November AS Harju Elekter Elektrotehnika opened the Development Centre which pools all the engineers from product development and technical departments. The new unit consists of 19 employees. The Development Centre will be an incubator that will provide sales units with innovative products and solutions and offer technical support to production units. The Development Centre includes a laboratory for the development of new prototypes and introducing samples.

➤ AS Harju Elekter Elektrotehnika organised a series of seminars for the employees of the operational and development units of our customers. During the seminars mutually beneficial developments were introduced, important subjects were addressed and questions were answered. A total of 10 training days with approx. 200 participants were organised.

➤ In 2012 a solar power station with the capacity of 10 kW was taken into use in Keila production unit. 30 solar panels were added to the station operating in the Finnish subsidiary. Together with the previously implemented solar power stations in Finland (30 kW) and Lithuania (50 kW) the total capacity of the renewable power stations installed in the companies of the Group amount now to approx. 100 kW. Most of the produced electricity is used for self-consumption and the excessive energy is channelled into the state energy network.

➤ The companies of the Group participated in specialised fairs held in Estonia and Finland, as well as in the composition of the Estonian stand in the European leading electrical engineering fair held in Germany.

➤ The Harju county governor awarded AS Harju Elekter with the title "Company of the year" and gave the manager of the company, Andres Allikmäe, the honorary decoration of the county. The chairman of the Supervisory Board and the development manager of the company, Endel Palla, was merited with the Grand Entrepreneur Award at the Year's Entrepreneur Gala.



# Business Results

## 5 years statistical summary

Kontsern	2012	2011	2010	2009	2008
<b>Statement of comprehensive income (million EUR)</b>					
Net sales	52.8	46.7	40.9	40.4	55.7
Operating profit	2.0	2.0	1.5	1.8	3.2
Profit attributable to owners of the Company	3.5	2.8	2.2	1.2	2.5
<b>Statement of financial position at the end of the year (million EUR)</b>					
Total current assets	16.5	15.4	14.4	12.0	15.9
Total fixed assets	43.1	37.5	40.7	27.5	22.5
Total assets	59.6	52.9	55.1	39.5	38.5
Equity attributable to owners of the Company	48.8	40.3	44.0	30.7	25.4
Equity ratio (%)	81.8	76.2	79.8	77.7	66.0
<b>Rates of growth (%)</b>					
Net sales growth	13.1	14.2	1.1	-27.4	19.1
Operating profit growth	-2.7	33.3	-16.1	-43.4	-2.8
Profit attributable to owners of the Company growth	26.8	27.6	76.9	-50.1	-54.3
Assets growth	12.7	-4.0	39.5	2.7	-16.4
Equity attributable to owners of the Company growth	21.1	-8.3	43.1	21.0	-25.5

	2012	2011	2010	2009	2008
<b>Performance indicators (%)</b>					
Operating margin	3.7	4.3	3.7	4.5	5.7
Net margin	6.8	6.3	5.6	3.4	4.4
Return of assets (ROA)	6.3	5.1	3.2	3.2	5.8
Return of equity (ROE)	7.9	6.6	4.4	4.4	8.3
<b>Shares (EUR)</b>					
Average number of shares (1000 pc)	17,093	16,800	16,800	16,800	16,800
Equity per share	2.61	2.51	2.22	1.67	1.51
The closing price	2.64	2.28	3.02	2.07	0.99
EPS	0.21	0.17	0.13	0.07	0.15
P/E	12.57	13.41	23.39	28.14	6.76
Dividend per share	<sup>(1)</sup> 0.09	0.07	0.06	0.05	0.06
<b>Liquidity ratio</b>					
Current ratio	1.8	1.8	1.8	1.6	1.6
Quick ratio	1.1	1.0	1.1	0.9	0.8
<b>Personnel and remuneration</b>					
Number of employees at the end of the period	452	427	424	452	501
Average number of employees	478	457	440	464	515
Wages and salaries (million euros)	9.1	7.7	7.0	7.3	8.5

Operating margin = Operating profit / Net sales \*100  
 Net margin = Profit attributable to owners of the Company / Net sales \*100  
 Equity per share = Average equity attributable to owners of the Company / Average number of shares  
 Return of assets (ROA) = Profit attributable to owners of the Company / Average total assets \*100  
 Return of equity (ROE) = Profit attributable to owners of the Company / Average owner's equity \*100

Current ratio = Average current assets / Average current liabilities  
 EPS = Profit attributable to owners of the Company / Average number of shares  
 P/E = Share price / EPS  
 Equity ratio = Average equity attributable to owners of the Company / Average total assets \*100  
 Quick ratio = Average liquid assets (current assets - inventories) / Average current liabilities

<sup>(1)</sup> Proposal of the Management Board



In the 2012 annual report the financial indicators of AS Harju Elekter (consolidating entity) and its subsidiaries, AS Harju Elekter Elektrotehnika, AS Harju Elekter Teletehnika, Satmatic Oy, Harju Elekter AB and Rifas UAB with its subsidiary Automatikos Iranga UAB (altogether referred to as the Group) have been consolidated line by line and the results of the related company, AS Draka Keila Cables, have been consolidated using the extended equity method.

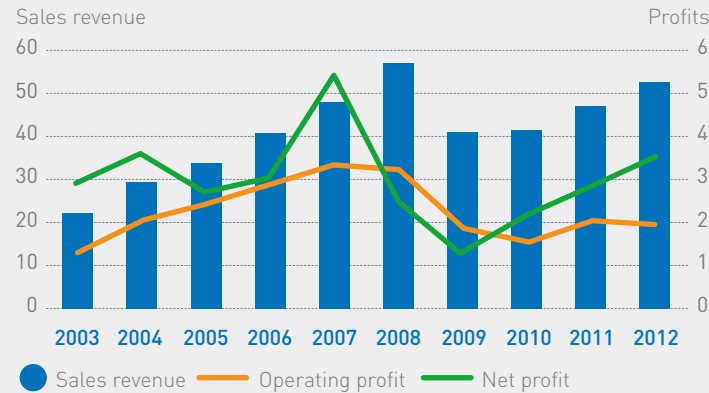
AS Harju Elekter holds 6.4% of the Finnish company PKC Group Oyj. The shares of the company are listed on the Helsinki Stock Exchange and are presented in the statement of financial position at their market price. The changes in the market price of the shares can have a substantial effect on the value of the assets and the owners' equity in the Group.

## Earnings and margins

In 2012 the consolidated net sales of the Group increased by 13.1% compared with the previous year amounting to 52.8 million euros. The share of Estonian companies in the total consolidated sales revenues was 45% (2011: 47%), Finnish company contributed 40% (2011: 40%), Lithuanian company 14% (2011: 13%) and Swedish company 1%.

The main area of activities of the Group is the production and marketing of electric power distribution and transfer equipment and activities related to them. These activities contributed, as usual, the

## Sales revenue, net and operating profits million euros



largest part of the consolidated net sales i.e. 90% (2011: 90%). The real estate segment and other non-segmented activities gave equally 5% of the sales volume of the Group in 2011 and 2012.

As for the markets, once again the Group's home markets (Estonia, Lithuania, Sweden and Finland) were dominant in 2012 giving 90% (2011: 94%) of the consolidated net sales. Sales volume in the home markets of the Group increased by 8.3% amounting to 47.5 million euros. Sales volume grew most of all in the Finnish (20%) and Swedish (more than 4.5 times) markets. The net sales in the Estonian market remained basically at the level of 2011. The sales in the Lithuanian market decreased by 29%. However, the sales revenue of the Lithuanian segment increased during the financial year by 19% amounting to

◀ In 2012 the consolidated net sales of the Group increased by 13.1% compared with the previous year

◀ Sales volume in the home markets of the Group increased by 8.3%

7 million euros out of which the sales in the home market amounted to 41% (2011: 67%).

During the year the share of other markets in the consolidated net sales has increased by 4 percentage point amounting to 10%. The sales to other European Union countries increased around two and half times and one and a half times outside the European Union. Germany where an active partner with great potential was found is a fast developing and continually growing market for the Group. During 12 month products and services were sold for 1.8 million euros more than a year before in Germany. This year new markets were entered in Ukraine and Switzerland where the sales of Group's products amounted to one million euros. Deliveries to Russia and Belorussia increased by 0.4 million euros amounting to 0.8 million.

The recovery of the economy has been accompanied by some increase in the demand in the main target markets of the Group. At the same time the competition became tougher in these markets. This, on the other hand, increased the pressure on prices and delivery dates.

The operating costs of the Group increased during the year by a total of 14% amounting to 50.8 million euros, outracing the rate of increase in net sales by 0.9 percentage points. The marketing costs increased more (18%) than any other cost. The rate of growth of general administrative expenses exceeded that of the net sales by 2.5 percentage points. The total increase in operating costs during the accounting period was

0.9 million euros amounting to 6.7 million euros i.e. 12.6% (2011: 12.3%) of the consolidated net sales.

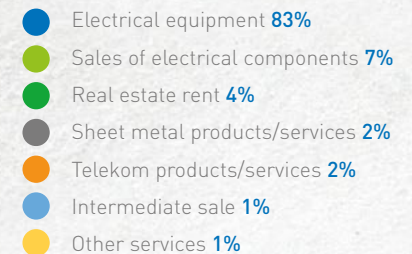
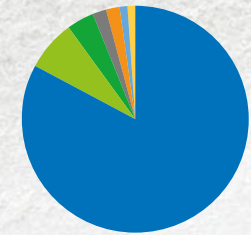
The increase in production and sales volumes in several consecutive years (2011: 14.2%; 2012: 13.1%) has led to the growth in the number of people employed in the Group. By the end of the accounting period 478 people were employed by the Group which is 21 persons more than a year earlier. Compared with the previous year the average number of employees increased during the year by 25 employees amounting to 452. The labour costs increased by 9% up to 11.9 million euros, accounting for 22.5% (2011: 23.3%) of the consolidated net sales.

During the year the amount of 86 (2011: 2) thousand euros of receivables was written down and charged off. The cost of the markdown of reserves was 38 (2011: 30) thousand euros. Depreciation and amortisation during the period amounted to 1.47 (2011: 1.35) million euros

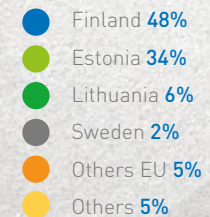
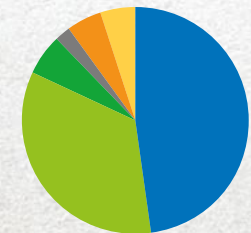
In 2012 the consolidated operating profit before depreciation was 3.44 (2011: 3.38) million euros. The operating profit was 1.97 million euros which was 55,000 euros less than in the previous year. The return on sales before depreciation was 6.5% (2011: 7.2%) and the net return on sales was 3.7% which is 0.6 percentage points less than the year before.

In 2012 the Group earned 854 (2011: 795) thousand euros of dividend profit. The financial income from the sales of 15.4 thousand shares amounted 175 thousand euros. During that period no other profit was made on

## REVENUE by business area



## by market





financial investments. As a whole, the Groups financial income amounted to 1.04 million euros which was 0.24 million more than the year before.

The Group consolidated 1.1 (2011: 0.5) million euros of profit from its affiliated company.

In 2012 the income tax costs amounted to 482 (2011: 318) thousand euros.

The consolidated net profit for 2012 was 3.6 million euros which was 22.2% more than in 2011. The share of the owners of the parent company of the period's net profit accounted for 3.5 million euros, increasing by 26.8% compared to 2011. The net profit per share was 0.21 (2011: 0.17) euros.

## Other comprehensive income

The market price of a share of PKC Group Oyj on the Helsinki Stock Exchange decreased during the period of 12 months by 4.00 euros and closed at 15.43 euros. During the reporting period 5.54 (2011: loss 5.52) million euros of profit was earned from the revaluation of financial assets and 0.16 million euros of revaluation profit was earned from the sales of financial assets. The revaluation reserve in the owner's equity increased by 5.38 million euros. Differences in the exchange rate emerging in recalculation of figures of a foreign company (Swedish subsidiary Harju Elekter AB) formed an insignificant part of other comprehensive income.

## Financial position

The amount of the consolidated balance sheet of the Group as of 31 December 2012 was 59.6 million euros, increasing by 6.7 million euros during the year.

By the end of the year business claims and prepayments amounted to 6.7 million euros, decreasing by 1.2 million euros during the year and inventory amounted to 6.4 million euros, decreasing by 0.3 million euros a year. At the same time the Group's debts to suppliers and other debts and payables remained at the same level. In 2012 the quick ratio increased by 0.1 points up to the level of 1.1, while the current ratio (1.8) remained at the level of the previous year.

In 2012 the amount of the balance sheet increased mainly due to the change in the market price of the PKC Group Oyj shares on the Helsinki Stock Exchange. During the accounting year the Group invested 0.7 million euros in fixed assets compared with the 3.1 million euros of the previous year. All in all, the book value of fixed assets increased by 5.7 million euros amounting to 43.1 million euros during the period of 12 months.

By the end of the year interest-bearing debt obligations amounted to 2.4 million euros, decreasing by 1.4 million euros during the period of 12 months, including the decrease in short-term liabilities by 1.2 million euros (2011: 771 thousand euros). During the 12 month period the total amount of capital rent payments made by the Group amounted to 282 (2011: 272) thousand euros.

◀ The consolidated net profit for 2012 was 3.6 million euros

◀ The share of the owners of the parent company of the period's net profit accounted for 3.5 million euros

◀ The amount of the consolidated balance sheet of the Group as of 31 December 2012 was 59.6 million euros

◀ During the accounting year the Group invested 0.7 million euros in fixed assets

## Business Results

The net debt (interest-bearing debt obligations – cash and bank accounts) of the Group has decreased by 4.0 million euros amounting by the end of year to -1.0 million euros. The ratio of net debt to owners' equity was -2.0% (2011: 6.7%).

During the period of one year the owner's equity of the Group increased by 8.1 million euros, amounting to 50.1 million euros by the end of the year.

By the end of the reporting period current assets amounted to 28% (2011: 29%) and non-current assets to 72% (2011: 71%), on the other hand, foreign capital accounting for 16% (2011: 21%) and owner's equity for 84% (2011: 79%) of total assets.

In 2012 the net cash from operating activities was 4.6 (2011: 1.2) million euros and net cash used in investing activities was 58 thousand euros (2011: 2.2 million euros). Proceeds from the issue of share capital was 0.66 million euros. The Group paid dividends of 1.2 (2011: 1.1) million euros and finance lease liabilities of 0.28 (2011: 0.27) million euros. The net cash used in financing activities was 2.0 (2011: 0.6) million euros. Cash and cash equivalents increased, during a year, by 2.5 million euros amounting to 3.4 million euros. In the previous years they had decreased by 1.6 million euros amounting to 0.8 million euros.

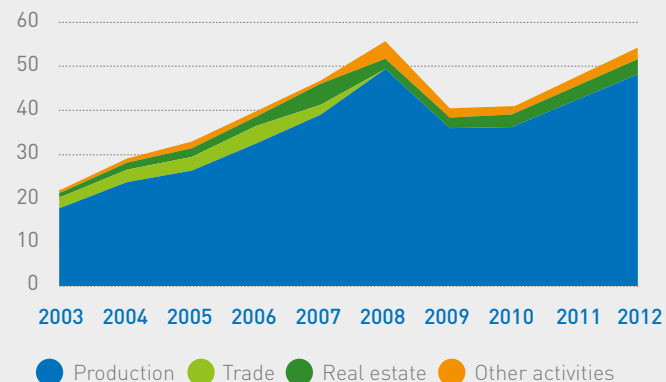
◀ During the period of one year the owner's equity of the Group increased by 8.1 million euros

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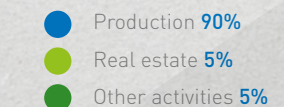
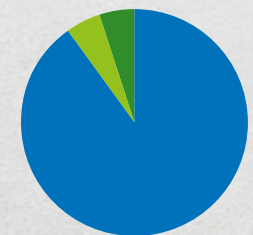
## Business Segments

As of 31 December 2012 the Group was active in two fields – production and real estate – where the accompanying risks and rewards were very different and both fields of activity had enough weight to form a separate segment. The share of the trading group operating within the parent company and, of Harju Elekter AB, has during the last four years (including 2012) remained below the essential 10% and, therefore, it was recognised as within the composition of other fields of activities.

Revenue of business segments  
million euros



REVENUE  
by business segment





## Production

The production segment includes electrical equipment factories in Estonia (AS Harju Elekter Elektrotehnika), Finland (Satmatic Oy) and Lithuania (Rifas UAB) which produce mainly electric power distribution equipment (substations, cable distribution and fuse boxes) and automatic and control boards for the energy sector, industry and infrastructure. AS Harju Elekter Teletehnika in Estonia which manufactures

products for the data and telecommunication sector as well as electro-technical sector, also belongs in this segment.

In 2012 production gave 90.4% (2011: 89.6%) of the consolidated sales revenue. The segment's volume of sales increased within a year by 14.1% amounting to 47.7 million euros.

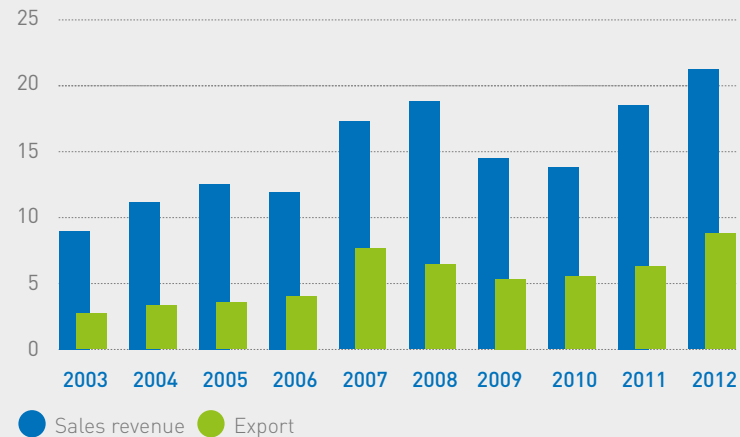


### AS Harju Elekter Elektrotehnika

AS Harju Elekter Elektrotehnika, which is fully owned by the Group, is a leading manufacturer and distributor of MV/LV distribution units in Baltic countries. The headquarters and plant of AS Harju Elekter Elektrotehnika are located in Keila comprising 10,775 m<sup>2</sup> of production, warehouse and office premises. The average number of employees is 190, incl. 33 of them working in sales and production development.

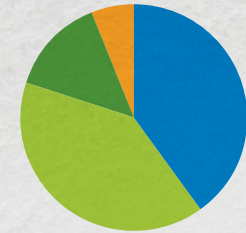
The year 2012 can be considered as a total success for AS Harju Elekter Elektrotehnika. In October the sales figures of 2011 were outpaced and only a week later the all-time turnover record of the company was achieved. In the beginning of December the budgetary estimation of 20 million euros was achieved. All in all the sales revenue of AS Harju Elekter Elektrotehnika increased within the year by 15% amounting to 21.2 (2011: 18.4) million euros, of which

### AS Harju Elekter Elektrotehnika sales revenue million euros



42% (2011: 33.5%) was from sales outside Estonia. Such growth was achieved mainly because of the increase in sales volumes in foreign markets, but also thanks to the increase in the net sales between the companies belonging to the Group. The company sold

### REVENUE by company



- AS Harju Elekter Elektrotehnika 40%
- Satmatic Oy 40%
- Rifas UAB 14%
- AS Harju Elekter Teletehnika 6%

AS Harju Elekter Elektrotehnika is a leading manufacturer and distributor of MV/LV distribution units in Baltic countries

its products in Finland and Sweden, and through its partners also in Germany, the Netherlands, Spain, USA, the United Arab Emirates, Russia and Belorussia. The sales in the domestic market remained stable.

The majority (93.1%) of sale revenues was earned by the sales of various electrical installations (2011: 92.5%). In 2012 the company got a lot of orders for several new MV and LV products that were sold in foreign markets. The product groups of energy distribution and control engineering are showing intensive growth but prefabricated and distribution substations for the energy sector still formed the largest product group of the company. As a result of effective marketing the share of products with a higher added value in its product portfolio was substantially increased. The number of orders on products involving special solutions tailor-made by the company such as distribution substations and feeder points for wind parks and substations for container cranes used in ports also had a remarkable increase. The provision of the world's largest integrated biogas plant in Finland with prefabricated high capacity distribution substations is another important landmark for the company. The developments in the Swedish, Norwegian and Russian markets should also be seen as a success.

In the end of the 2012 AS Harju Elekter Elektrotehnika opened in Keila Industrial Park a new engineering and development unit – the Development Centre – which pools the engineers from product development and technical departments. The new unit consists of 19 employees and in 2013 it will be complemented by sales engineers. The Development Centre will be an incubator that will provide sales units with

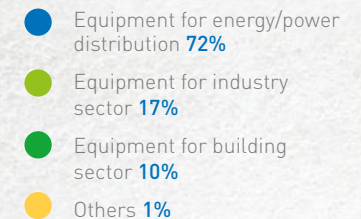
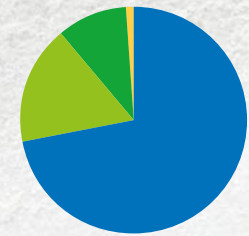
innovative products and solutions and offer technical support to production units. The Development Centre includes a laboratory for development of new prototypes and for testing and introducing samples.

According to the requirements of quality standards ISO 9001 and ISO 14001 the recertification of management systems was carried out in the end of the year and in January 2013 certificates for the next three years were issued. In 2012 the company also past several supplier audits carried out by customers.

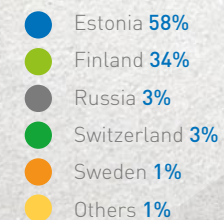
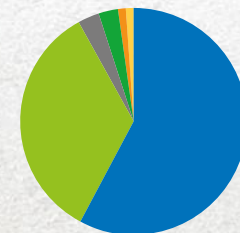
Following the principles of quality management and environmental policy AS Harju Elekter Elektrotehnika continually focused on optimising important processes in the company and on the efficient use of materials and products in order to reduce the resultant waste to a minimum. The introduction of the management system 5S continued. Within the framework of the co-operation contract on engineering studies and research concluded between AS Harju Elekter Elektrotehnika and Tallinn University of Technology the co-operation continued within doctoral studies to develop “smart grid” solutions, including “Optimising the performance of an energy system in order to balance variable load”.

In order to ensure the development and growth of the company active export marketing will be continued in 2013 focusing on finding new markets and customers. In order to enhance competitiveness the activities related to increasing the effectiveness of the main processes in the company and improving the organisation of work and the environment protection will be carefully observed. Additional opportunities are created by reinforcing the co-operation between the companies belonging to the Group.

## REVENUE by product group



## by market







HEKA prefabricated substations. More than 750 substations were manufactured in a year, including 130 for Scandinavian power networks. In 2012, started first supplies of 1 kV substation, which meets the requirements of Swedish market.







## AS Harju Elekter Teletehnika

The main activities of AS Harju Elekter Teletehnika, which is fully owned by the Group, include the manufacture and marketing of data and telecommunication boxes and other equipment and accessories and fibre optical cables for the telecom sector. In addition, a range of customer-based sheet metal products and semi-manufactured articles are produced for the electrical engineering sector, subcontracting works are carried out and services rendered in the area of sheet metal processing and finishing. The company also comprises a mechanical division, which executes special orders for companies in Keila Industrial Park, and holds licences for designing, installing and maintaining fire and security systems. The factory is located in Keila and the company employs 64 people.

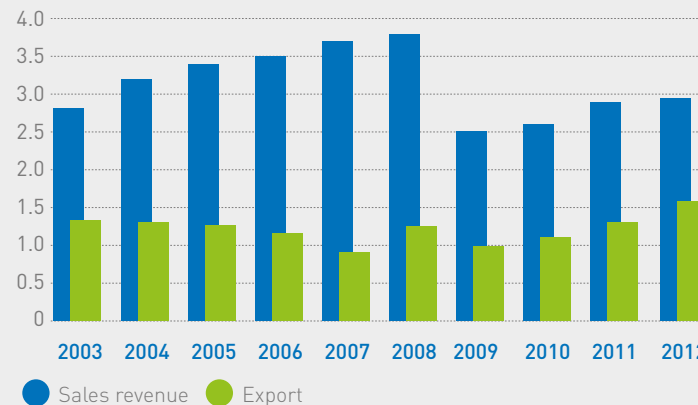
In 2012 sales revenues of AS Harju Elekter Teletehnika amounted to 2.96 million euros, increasing by 3.3% compared with the previous year. In the first half of the year the main target markets of the company in Nordic countries recovered but the competition also got tougher, especially in Finland where the surplus of the production resources of sheet metal increased and that put a strong pressure on prices and delivery dates. In 2012, domestic sales decreased by 12% and sales outside of Estonia increased by 22.5%. Sales outside of Estonia accounted for 52.7% (2011: 44.5%) of sales revenues. Finland was the main export market accounting for 87.6%

of the whole export turnover, followed by Germany with 5.6%, Sweden with 2.2%, Lithuania with 2.1%, Norway with 1.3% and Latvia with 1.2%. Cabinets for data communication networks and their fittings were the main export articles.

In the beginning of the year the number of orders started to increase and in the end of the first half of the year the continuation of the increase until the end of the year was estimated. The increase in sales was mainly due to customers related to the telecommunication sector who, despite the unfavourable economic environment continued to make planned

◀ The main activities of AS Harju Elekter Teletehnika include the manufacture and marketing of data and telecommunication boxes and other equipment and accessories and fibre optical cables for the telecom sector

AS Harju Elekter Teletehnika sales revenue  
million euros





investments. The instability prevailing in Europe caused the reduction of sales revenue and less than planned profit from sales in other customer groups. Many customers postponed their large-scale projects and confined themselves to essential investment. The number of small-scale and short-term orders increased complicating the organisation and planning of production. In the second half of the year the sheet metal and telecommunication markets in Nordic countries shirked making companies to implement cost-saving programmes. As a result the volume of orders to the company decreased.

The year 2012 is also characterised by entering new markets and getting acquainted with the needs of new customers. In 2012 AS Harju Elekter Teletehnika made the first steps towards entering the German market where our rack products found, thanks to our partners, their way to the networks of leading telecommunication operators in Germany. We also made the first contacts for delivering our rack products to Norway. Developments in Sweden were also positive as the number of orders filed by our partner company was constantly increasing. Finland is still the main export market for the company. The focus there is on better service of key customers and improving the security of provision.

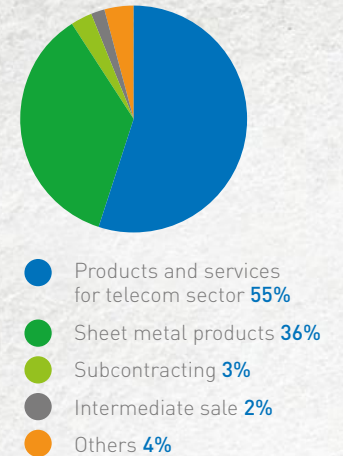
The company has been working on increasing its productivity for several years and these endeavours continued in 2012 when the production process and production chain was actively developed. The per-

formance and efficiency of working processes was monitored by different indicators and as a result the security of provision improved and the production time shortened. Noticeable achievements were made in the introduction of Lean production principles and reducing the misuse of resources. 5S audits and Lean principles have become an integral part of the production process of the company.

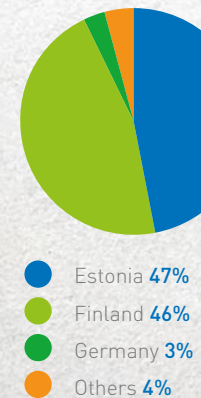
During the renewal of the strategy of AS Harju Elekter Teletehnika the development plan of the company for the years 2012–2017 was prepared. The idea that team work is the basis for a smooth performance of production processes was repeatedly confirmed. In connection with the team work the improvement of intra-group co-operation, such as the co-operation with AS Harju Elekter Elektrotehnika in manufacturing casings for power system control centres and substations and with Satmatic Oy in manufacturing high IP level casings should be mentioned.

The growth of sales turnover and the profit through the increase of efficiency and improvement of the organisation of work will be the key-words for AS Harju Elekter Teletehnika in the near future. The company also aims to increase the share of products with a higher level of integration and added value and the reduction of simple products allowing one or two operations. This is supported by the increase in competence and skills of our employees.

## REVENUE by product group



## by market







As a result of co-operation between AS Harju Elekter Elektrotehnika and Satmatic Oy four specially designed substations for the largest biomass gasification plant in the world located in Vaasa (Finland) were produced. The best engineers and project managers of the subsidiaries of the Group were involved in this innovative project. The construction of such environmentally friendly power stations is a gradually increasing trend.





## Satmatic Oy

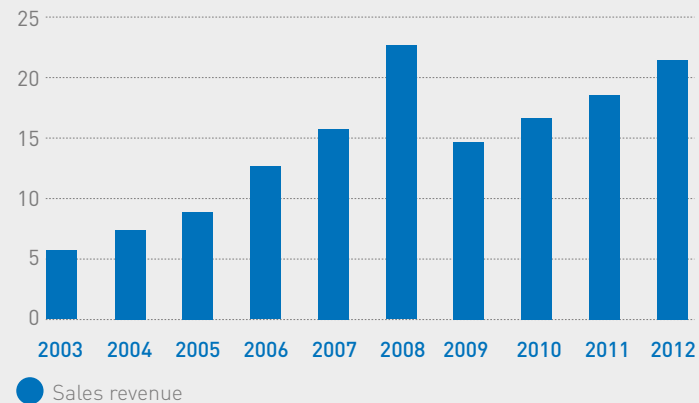
Satmatic Oy, a fully owned subsidiary of AS Harju Elekter, is a leading producer of automation equipment for the industrial sector and of electric power distribution and transfer equipment in Finland. The product range of the company covers the needs of customers from the development of products, programmes and projects to full maintenance service. Satmatic Oy is also an importer and retailer of the products of the companies belonging to the Group in Finland. The headquarters and the factory of the company are located in Ulvila near Pori. The company also has a sales representation in Kerava in order to better service businesses and other customers in Helsinki-area. The company hires 88 employees.

Despite the volatile economic environment in the euro zone in 2012 Satmatic Oy was able to increase its sales revenue by 14.5% up to 21.3 million euros. The sales outside Finland either directly or through dealers amounted to 60% of the total sales.

Satmatic Oy operates mainly in three sectors: industrial sector, energy production and distribution sector and infrastructure. According to the type of supply two different production models can be differentiated: contract manufacturing and project based product/solution. However, such orders from customer groups orientated to exports create uncertainty accompanied by risk that such orders may be easily

moved from Finland to some other country where the production costs are substantially lower and/or the final customer is closer. The energy production and energy distribution sector including different renewable energy solutions and investments in nuclear power stations where orders are either made in the domestic market or the closest neighbouring countries show a remarkable increase.

### Satmatic OY sales revenue million euros



The activities of the company are based on long-term customer relations where great attention is paid to developing first-rate and professional solutions as

◀ Satmatic Oy is a leading producer of automation equipment for the industrial sector and of electric power distribution and transfer equipment in Finland

well as to mutually offered added value. In 2012 the first products and solutions manufactured by implementing Sivacon S8 working principles were completed. As to project products the moderate increase continued in 2012 and several automation and control cabinets and installations were handed over to customers. One of the most important projects of the year was the development of electric solutions and their provision to the world's largest biogas plant in Vaskiluoto. The sales of car heating switchboards and charging stations also increased. These articles were mainly sold through retail sellers. In 2012 the first charging cabinets provided with portable charging device were sold to customers.

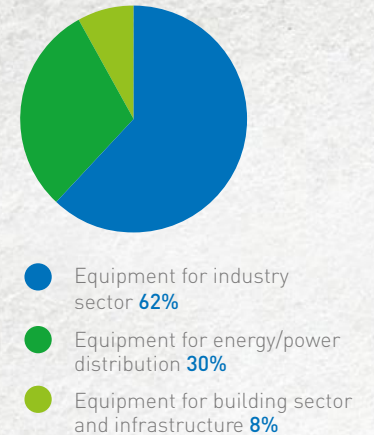
For years Satmatic Oy has consistently invested in meeting quality requirements and environmental management standards. In 2012 more attention was paid to quality assurance, while environmental issues were dealt mostly in connection with everyday work routine and the administration of the production units of the plant. In autumn the recertification of management systems according to quality standards ISO 9001 and ISO 14001 was carried out. It was passed successfully and SGS Fimko issued to the company a relevant certificate for the period of the next three years. In addition to that, the production processes of the company were also audited by

UL Inspection Centre who recognised the production procedures of switchboards and final products as suitable for USA and the rest of the American region.

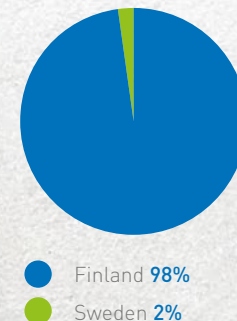
In 2012 the introduction of Lean 5S principles was started in order to make the organisation of production more efficient and the development project TOSI 2013 with the aim to reduce the unnecessary waiting time was started. As a result of long-time efforts all sales orders of the company are now processed electronically and as to purchase orders the needs of providers can be observed.

In 2013, Satmatic Oy will focus on finding new customers and more efficient involvement of wholesaler and retail traders in the sales of substations, distribution and transfer equipment, as well as on increasing on-line sales. The organisation of production will focus on shortening of the delivery period by implementing the development project TOSI 2013 and on the increase of productivity by implementing 5S production principles. In order to increase the sales of renewable products, heating switchboards for car parks and charging systems the products will be made even more customer friendly.

## REVENUE by product group



## by market







## Rifas Group

Rifas UAB is a Lithuanian subsidiary of AS Harju Elekter located in Panevežys. AS Harju Elekter owns 62.7% of its shares. The main area of activities of the company is the production and marketing of industrial automation equipment and electric power distribution and transfer equipment. The Rifas Group (hereinafter "Rifas") comprises the Lithuanian manufacturing enterprise, Rifas UAB, and its subsidiary, Automatikos Iranga UAB, which specialises in design. The company hires 89 employees.

In 2012 the sales revenues of Rifas increased by 18.8% amounting to 7.2 million euros. The sales outside Lithuania accounted for 58% (2011: 32%) of the net sales. Although the sales in the domestic market decreased by a quarter the company was able to increase its sales volume in foreign markets. Sweden and Germany were entered as new markets and the latter became the largest export market for the company. Supplies to Norway and Belorussia continued, Switzerland and Ukraine were added as new markets. Sales outside the European Unions increased within a year by 30% and amounted to 1.2 million euros.

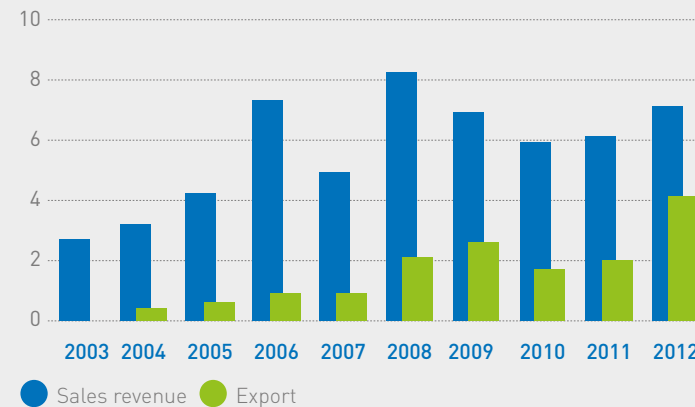
Almost two thirds of the sales revenues were earned from the sales of project based products and services, one fourth from the management of contractual projects and a small part from the retail of

electric components. Control switchboard formed the largest share of product selection. They were followed by different management systems and panels, as well as energy distribution products.

The year was characterised by active marketing for getting new orders and projects, as well as by numerous meetings and negotiations with current and potential customers for establishing new business opportunities on the existing and new markets. Favourable developments took place on the Norwegian market where the co-operation with the local partner was expanded in order to increase the sales of

### Rifas UAB sales revenue

million euros



◀ The main area of activities of the Rifas UAB is the production and marketing of industrial automation equipment and electric power distribution and transfer equipment

distribution panels and control panels for frequency converters. After years of hard work and successful audits, the Lithuanian subsidiary, Rifas UAB, was recognised as an official co-operation partner and supplier of such international corporations as ABB and GE Energy.

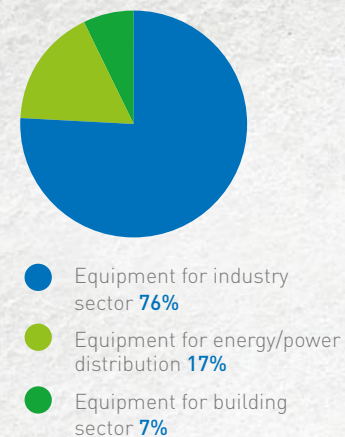
In addition to finding new customers and markets the company also focused on the organisation of the company in 2012. Changes were made in the management: since January 1, 2013 Aidas Šetikas is the chairman of the Management Board of Rifas UAB and several departments got new managers. As a result of these changes the administration of the company was supplemented by several experienced specialists and the competence of managing the internal processes and improving the efficiency of the company increased substantially.

In 2012 standards of environmental management, ISO 14001, occupational health and safety, OHSAS 18001, and the international quality standards,

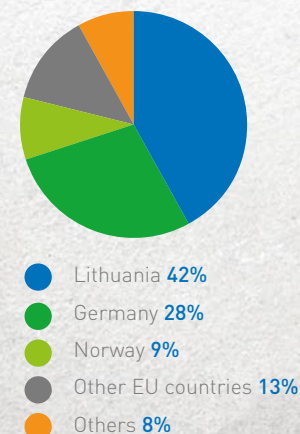
ISO 9001, were introduced in the management of the company. In 2012, the recertification of the management systems according to quality standards ISO 9001 was passed successfully and BVQI issued the company a relevant certificate for the period of the next three years. Company's other investments and developments were mainly connected with acquiring software licences and creating and developing of modern document management system, as well as with preparations for the introduction of the system for measuring the performance of providers (KPI).

For the further development of the company the main focus will be put on the reinforcement of the strategic relationship with existing co-operation partners and on active marketing for finding new customers and projects. Internally the main focus will be on the improvement of business processes and the qualification of the personnel, especially the capabilities of engineers and the instruction of high quality documentation system.

## REVENUE by product group



## by market







Power supply substations for Konecranes port cranes – a developing business relationship. Almost 50 substations meeting special requirements has manufactured by Harju Elekter for various ports in United Arab Emirates, Spain, Australia and Netherlands.

## Real Estate Holding and Other Activities

The sales revenues of the real estate segment (parent company) and other non-segmented activities (parent company and Harju Elekter AB) totalled 9.6% (2011: 10.4%) of the consolidated sales revenue, out of which intermediary sale of products formed 50.6%, rental income 43.0% and income from mediation and rendering of services formed 6.4%.

### Real estate holding

The sales revenues of the segment were 2.4 million euros, keeping the level of the previous year. Rental income increased by 5.6% amounting to 2.2 million euros, accounting for 91.0% (2011: 86.2%) of the profit of the segment. Due to the opening of the energy market, part of the clients started to buy electricity on the open market, which was the main reason for the sales revenues from selling of services to decrease more than 100 thousand euros. Rendering public and other services gave 9% (2011: 13.8%) of the sales revenue of the segment.

### Other activities

During the reporting period, the sales revenues of other non-segmented activities increased by 9.7% amounting to 2.7 million euros and forming 5.1% (2011: 5.2%) of the Group's sales revenues. The main revenue source was the intermediary sale of products. Revenue from the sales of other services was 31 (2011: 18) thousand euros.

### AS Harju Elekter

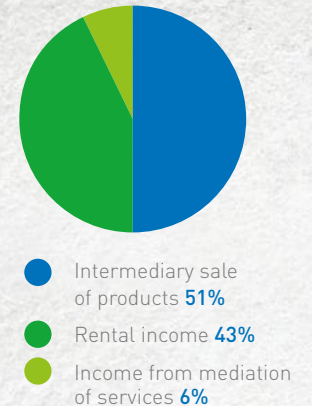
AS Harju Elekter is the parent company of the Group. Its activities are divided into two segments – Real estate and Other activities. Unallocated activities include the coordination of co-operation within the Group, management of subsidiaries and related companies through their supervisory and management boards, management of the finances and investments of the Group and management of development and expansion activities as well as managing of personnel, IT and communication services and guaranteeing the professional operation of the corporate stores. Stores located in Tallinn, Tartu and Keila sell both products of the Group and related companies and other goods necessary for electrical installation work mainly to retail customers and small and medium sized electrical installation companies.

The business activity of the parent company gives 8.6% (2011:10%) from the consolidated sales revenues.

### Harju Elekter AB

In 2010, the Group founded a representation and sales organisation, Harju Elekter AB, in Sweden. AS Harju Elekter has a share of 90% in the subsidiary while AS Vallin Baltic holds 10% of the share capital. The main activity of the company is the intermedi-

### REVENUE by activity



◀ Harju Elekter AB is the Group's representative and sales organisation in Sweden



ary sale of products. With the establishment of the subsidiary, Harju Elekter AB, the Group increased its presence in the Swedish market and created new opportunities for increasing sales by offering customers a wide selection of products, namely electro-technical products, manufactured by the companies of the Harju Elekter Group.

During the first years of activity, Harju Elekter AB has focused on the mapping of the market; finding out the needs and demands of the customers; bringing the products and solutions of the Group in conformity with local requirements; drawing up advertising materials for products and services; and distributing information. The work has been fruitful and in 2012 the share of the Swedish market in the sales revenue of the Group increased up to 2.4% (2011: 0.6%).

## Related Company

### AS Draka Keila Cables

AS Draka Keila Cables is the largest cable manufacturer in the Baltic States. The company's share capital is divided between cable manufacturer Prysmian Group (66%) and AS Harju Elekter (34%). The Keila factory specialises mainly in the production of aluminium power cables. In addition to its own products the company, as the representative of the Prysmian Group in the Baltics, markets a wide range of Prysmian Group products. The company hires 93 employees.

The customers of the company include power networks and constructors of power and telecommunication networks. The company sells its products via wholesalers of electric goods, as well as through the retail shops of AS Harju Elekter trading group. A remarkable part of the net sales of the company con-

sists of the sales to other companies of the Group who market the production of the Keila plant in their home markets. The production of the AS Draka Keila Cables is mainly marketed in Estonia, Latvia, Lithuania and Scandinavian countries and to lesser extent in other EU countries, as well as outside of Europe.

The year 2012 was very successful for AS Draka Keila Cables. The company's security of provision exceeded 95%. Surplus spending on materials decreased substantially and the turnover in the Baltic countries and, thanks to the inter-group sales, also in other markets increased. The sales revenue increased by 14% amounting to 51.8 million euros.

In 2012, AS Harju Elekter consolidated a profit from related company in amount of 1.1 (2011: 0.5) million euros. The economic results of the related company

◀ The work has been fruitful and in 2012 the share of the Swedish market in the sales revenue of the Group increased up to 2.4%

◀ AS Draka Keila Cables is the largest cable manufacturer in the Baltic States

◀ The Keila factory specialises mainly in the production of aluminium power cables

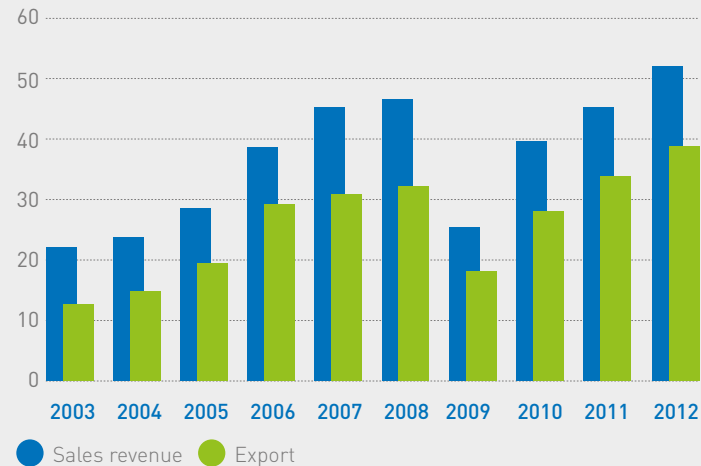
◀ The year 2012 was successful for AS Draka Keila Cables – the company's security of provision exceeded 95%

are presented in the consolidated financial statement using the equity method.

In the field of production, all the efficiency indicators of the company improved: surplus spending on materials continued to decrease and security of supply as well as productivity per employee improved. In 2012 the company made investments in the amount of 151,000 euros. It invested in the improvement of the efficiency of the plant and the reliability of the machinery as well as in the reduction of surplus spending of materials. In the field of developing the quality system, significant progress was made in reducing incompliance in the production, the number of defective products and claim reports related to service.

In 2013, focus is going to be still on the reduction of surplus spending on materials, improvement in production efficiency and the increase of production capacity through the improvement of the existing machinery.

AS Draka Keila Cables sales revenue  
million euros



## Other Financial Investments

### SIA Energokomplekss

SIA Energokomplekss is a sales organisation, founded in 2006. At the beginning the Group's participation in the Latvian company SIA Energokomplekss was 10% and it was increased to 14% in 2009.

Holding in SIA Energokomplekss makes it possible to participate together in invitations-to-tender for MV and LV equipment in Latvia. In 2012, the company paid dividends and AS Harju Elekter received dividend profit in the amount of 23.4 (2011: 24.6) thousand euros.

◀ Holding in SIA Energokomplekss makes it possible to participate together in invitations-to-tender for MV and LV equipment in Latvia

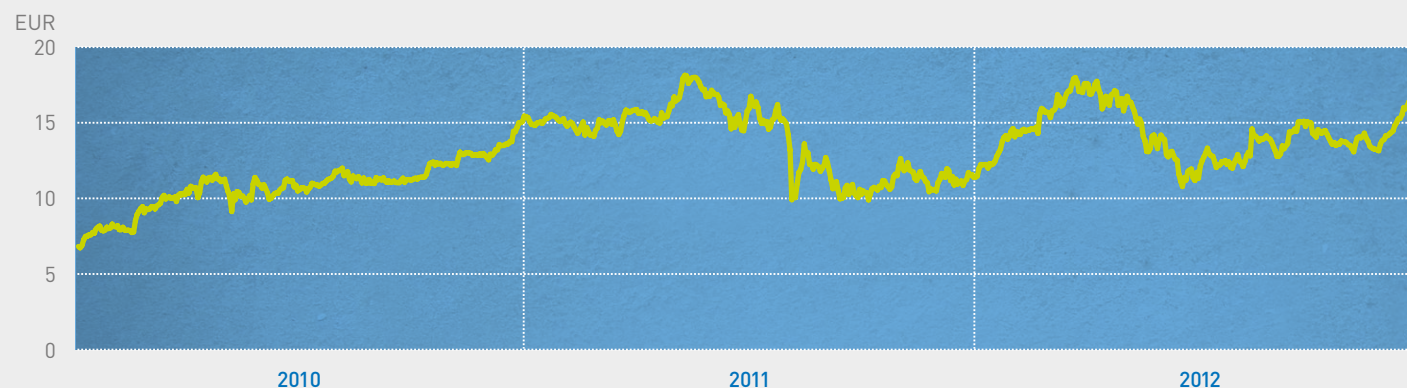


## PKC Group Oyj

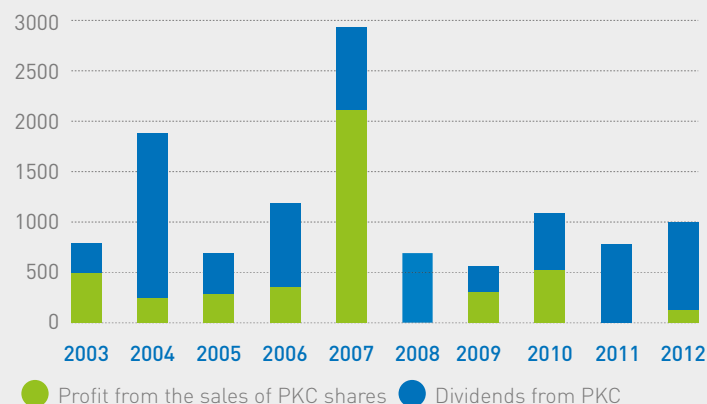
PKC Group Oyj (hereinafter PKC) is a Finnish publicly traded company, which manufactures cable insulation for the automobile, telecommunication and electronics industries. In 2012, sales revenue of PKC was 928.2 million euros and the Group employees 19 thousand people.

PKC shares are quoted on the Helsinki Stock Exchange. AS Harju Elekter is one of top-10 holders of PKC shares with a stake of 6.4% as at December 31, 2012. The market price of the shares decreased in 2012 by 4 euros and on the last day of trading the price of a share on the Helsinki Stock Exchange was 15.43 (2011: 11.43) euros. PKC shares are valued in the balance sheet according to market price and the change in the market price of the shares has a direct influence on the Group's assets. During the period of 12 months the fair (i.e. market) value of financial assets increased by 5.3 million euros up to 21.4 million euros.

## Share of PKC Group Oyj in 2010-2012



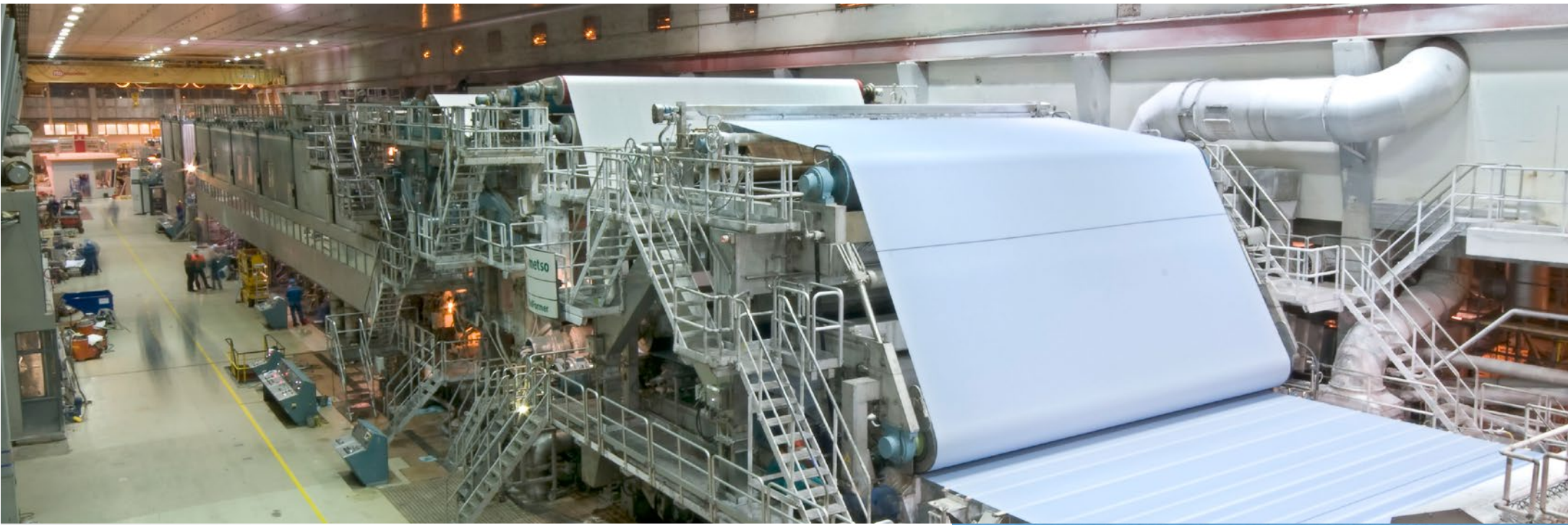
## Profit earned from financial investment thousands euros



For the financial year of 2011, PKC paid a dividend of 0.60 euros per share which is a total of 0.83 million euros, compared to 0.55 euros per share in 2010, totalling 0.77 million euros. In 2012, the Group sold 15,400 PKC shares, the nonrecurring profit for which amounted to 175,000 euros.

PKC Group Oyj is a Finnish publicly traded company, which manufactures cable insulation for the automobile, telecommunication and electronics industries





Engineers of the Group work on products and comprehensive solutions that have to meet requirements set by industrial sector customers. In 2012 the Group manufactured automation equipment and Sivacon low voltage distribution panels for paper, metal and wood processing factories in Finland, Russia and beyond.





# Personnel

In 2012 the development of the labour market within the region of operation of the Group has been favourable, employment has been steadily increasing and the unemployment rate has been continually decreasing. However, the entering of new people in the labour market is slower than before. The importance of the lack of labour force and the relatively high structural unemployment as factors hindering production has also grown. The wage level in this branch of activity and the outflow of qualified specialists from the country (especially from Estonia and Lithuania) also makes it difficult to find highly qualified labour. The lack of highly qualified labour has again spotlighted the subject of raising wages.

As at the balance day on 31 December, there were 478 (2011: 457) people working in the Group and the average number of employees was 452 (2011:427). Employee wages and salaries totalled 9.1 (2011: 7.7) million euros in the year 2012. The average wages per employee per month have increased by 12% amounting 1,684 euros. The biggest increases took place in Finland. It is important to note, that the average wage in Finland and Sweden exceed those in Estonia and Lithuania by almost triple.

The majority of the Group's employees – 299 people – worked in Estonia, including 45 people who worked

## Personnel and labor costs



in the parent company. At the end of the year, there were 88 people working in Finland, 89 in Lithuania and 2 in Sweden. From 478 employees working in the Group 376 of them were men and 102 women, 100 of whom have higher education, 328 people have secondary or vocational secondary education and 50 have basic education. In order to improve the skills and qualifications of employees joint in-service training courses have been started in co-operation with higher and vocational educational institutions.

Harju Elekter Group is characterised by its solid organisational culture. The high percentage of long-

◀ The average wages per employee per month have increased by 12% amounting 1,684 euros

◀ In order to improve the skills and qualifications of employees joint in-service training courses have been started in co-operation with higher and vocational educational institutions

term employees motivates newcomers to preserve and develop this culture. 54.3% of employees have worked in the Group for over five years.

The average age of the Group's employees has remained stable, and was 40.3 years in the accounting year. To find new competent employees, AS Harju Elekter co-operates with universities and vocational schools which in summer use the companies of the Group either as their basis for vocational training or in the framework of in-service training or retraining programmes. For over ten years now, AS Harju Elekter has had close co-operative relations with Tallinn Technical University, since 2010 as Golden Sponsor. Over the years, altogether 41 Bachelor's or Master's degree students have participated in the scholarship programme and six young engineers are currently employed by the Group. Also AS Harju Elekter carries out several co-operation programmes with the Tallinn Vocational Education Centre, Tallinn Polytechnic School, TTK University of Applied Sciences, and other schools. Finnish subsidiary continues a close co-operation with Satakunta University of Applied Sciences and Tampere Technical University.

During the reporting period, companies in the Group continued to focus on optimising costs and making their operation more efficient. Field exercises and training organised for employees at companies located in Estonia were aimed at improving professional skills and qualifications and raising the efficiency and reducing spending surplus materials by implementing the 5S-model. Besides that, first aid courses are organised after every three years and special

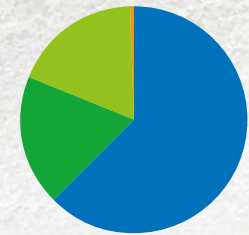
courses introducing the most important amendments to the relevant laws are offered to working environment representatives. All employees are constantly briefed about waste handling and the organisation of the waste sorting in the company.

The Group has many possibilities for motivating its personnel:

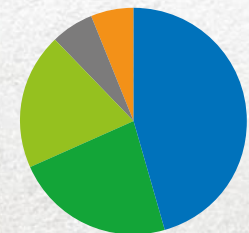
- a bonus system linked to operating profit. The scheme involves all employees. Bonuses dependent on profit motivate employees to always consider the outcome of their work for the company as a whole;
- share-option schemes, aiming at involving members of the directing bodies and employees of companies of the Group as well as members of the boards of related companies as shareholders to motivate them acting in the best interest of the Group;
- the cross company as well as cross-border employee exchange programmes, promote the rapid development of knowledge and skills within the Group and offer rotation opportunities.

AS Harju Elekter is a responsible and caring employer offering its employees contemporary working and recreation conditions. The Group is involved in constructive co-operation with the Keila Industrial Park trade union, one of the main outcomes of which is collective labour agreement. The stability, social guarantees and motivation scheme offered by AS Harju Elekter promote trust between the company and its employees and prevent the disruption of work.

## EMPLOYEES by country



## LENGTH of service







Engineers of AS Harju Elekter Elektrotehnika developed a special energy collection system for Norwegian wind parks. The smooth technical performance as well as the durability of the exterior details of the system in the extreme weather conditions was considered equally important in the proposed solution. 31 prefabricated substations with concrete casings and 8 switchgears made of stainless steel were manufactured for this project in 2012.





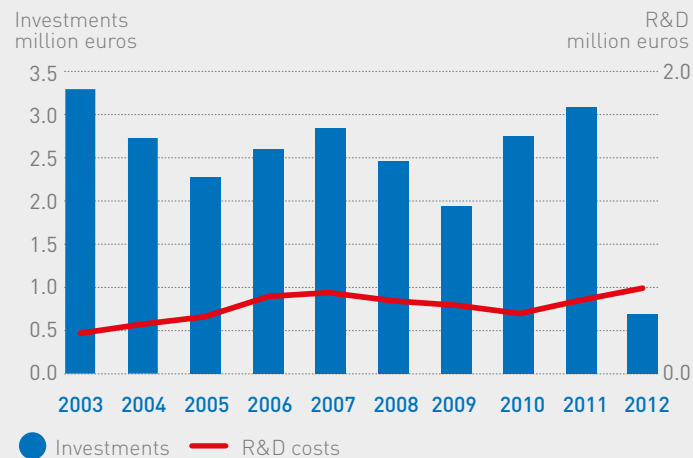
# Investments and Development

In 2012, the Group investments to real estate, tangible fixed assets and intangible fixed assets totalling 0.7(2011: 3.1) million euros.

As a whole the investments can be divided into two categories: half of them aimed to support and ensure the Group's further development and the other half includes renewable investment that is made to ensure that production premises and technology are kept up-to-date and comply with the quality requirements.

The development of the AX2009 production management and accounting software programme in Estonian companies of the Group was continued. Although the largest investments related to it were made during the period from 2009–2011, the company continued the identification, adjustment and introduction of new modules and additional options. In 2012 the modules for the management and analysis of security of provision and internal mistakes were introduced. Investments in the development of the economic software made during the accounting year amounted to a total of 74 (2011: 57) thousand euros, while investments in information technology equipment amounted to 18 (2011: 59) thousand euros.

## Investments and development



In 2012 new website based on free software connecting all Estonian companies of the Group was created.

Work involving grants from the European Union structural funds in the development projects of the Group continued. The projects were mainly aimed at developing key activities of the companies, preparing strategies and training the personnel (impro-

◀ In 2012, the Group investments to real estate, tangible fixed assets and intangible fixed assets totalling 0.7 million euros

◀ In 2012 new website based on free software connecting all Estonian companies of the Group was created



vement in qualifications, team work training). With assigned technology grants the production capability will continue to be enhanced through improving the technology which resulted in the improved quality and security of supply necessary for successful export activities as well as shorter production cycles. In 2012, assigned grants were received for acquiring machinery and equipment in the amount of 14 (2011: 59) thousand euros, for personnel training in the amount of 4 (2011: 21) thousand euros and for development in the amount of 11 (2011: 19) thousand euros, totalling 29 (2011: 99) thousand euros.

According to the development principles of the Group, AS Harju Elekter aims at the continuous modernising and development of new products to meet the needs of its customers and to improve production technology. In 2012 the development costs, at cost price, of the Group amounted to a total of 0.56 (2011: 0.47) million euros, accounting for 1.1% of the Group's sales volume.

The main product development resources of the Group are concentrated in the Estonian subsidiary, AS Harju Elekter Elektrotehnika; Satmatic Oy and Rifas UAB specialise in industrial products and the development of renewable energy solutions.

The year 2012 was diverse and interesting for the Estonian product development team. In the end of the year the company opened in Keila Industrial Park a new engineering and development unit, the Development Centre, which pools the engineers from

product development and technical departments of AS Harju Elekter Elektrotehnika. The new unit consists of 19 employees and in 2013 it will be complemented by sales engineers. The Development Centre will be an incubator that will provide sales units with innovative products and solutions and offer technical support to production units. The Development Centre includes a laboratory for development, building and testing of new prototypes and for introducing new product samples.

Due to the market demand AS Harju Elekter Elektrotehnika had to develop special solutions for several standard products. The range of basic products in the product portfolio of the company and the professional skills of engineers working in the Development Centre are adequate for such solutions while flexibility and customer orientated approach adds value to the whole sales procedure. In addition to the development of standard HEKA type substations several special orders were executed such as a substation with a green roof and a substation provided with concrete pillars and park benches for the Swedish market. A feeder point with rustproof casing was specially developed for the Norwegian regions where extreme weather conditions prevail. On the basis of the needs of a customer the development team created substations for container cranes that have already conquered most of the world's ports in America, Australia, Spain, the Netherlands and the United Arab Emirates. The product has been well accepted by customers, as well as by producers. In 2012 the development of universal products was con-

◀ In the end of the year the company opened in Keila Industrial Park a new engineering and development unit, the Development Centre, which pools the engineers from product development and technical departments of AS Harju Elekter Elektrotehnika. The new unit consists of 19 employees

tinued by the addition of the totally innovative substation casing with a modular structure. As to large HEJA type substations, the project of Vaskiluoto biogas plant that probably exceeded all the previous projects for its complexity and capacity should be mentioned. Several new switchboards tailored specially to meet the needs and requirements of co-operation partners or certain markets were developed for the market of small-scale standard switchboards.

In 2012 a substantial part of the product development resources of the Keila Development Centre was used to prepare the tender for the state procurement published by the Estonian network operator, Elektrilevi. The outcome of the procurement will be published in the first half of 2013.

Subsidiaries in Finland and Lithuania focused on development projects related to renewable energy and offering suitable solutions related to them. In 2011, a solar power station with the capacity of 50kW was installed on the roof of the Rifas UAB production site and a solar power station with the capacity of 30kW on the Finnish production unit. In 2012 the

Finnish solar power station was supplemented with another 30 panels and another solar power station with the capacity of 10kW was built on the roof of the Keila production centre. Satmatic Oy increased the sales of solar energy installations and solutions. The development of heating boards for car parks and charging cabinets continued and resulted with the solution for remote control system for heating boards for car parks. Remarkable step forward was also made in the development of charging cabinets for electric cars where a slow as well as medium-fast charging system for means of transport was created at the request of a customer.

The companies of Harju Elekter Group participated in specialised fairs presenting their production range related to energy distribution networks. In February the company participated in the largest energy sector fair in Finland held in Tampere, and in April, in the composition of the Estonian joint stand, in the electrical engineering fair in Hannover. In addition to that several smaller regional fairs were visited such as the construction fair in Pori, the subcontracting fair in Tampere and SLO electricity fairs in Kuressaare and Tallinn.

◀ In 2012 a substantial part of the product development resources of the Keila Development Centre was used to prepare the tender for the state procurement published by the Estonian network operator, Elektrilevi

◀ Subsidiaries in Finland and Lithuania focused on development projects related to renewable energy and offering suitable solutions related to them





Harju Elekter Group has worked in co-operation with several ship building companies for a long time providing liners and cruise ships with standard cabin switchboards in metal casings. The quantity of orders depends on the type and function of ships and is between 500-2000 switchboards.





# Quality Management and Environmental Policy

A high quality business and management model is one of the assets of the Harju Elekter Group. The objective is to develop business processes, practices and systems based on the principle of continuous improvement and in accordance with the customers' needs and expectations. Quality development is a continuous process where every employee has a central role to play. The Group particularly emphasises the handling of customer feedback so that the necessary information reaches the relevant employees

with minimum delay and that corrective and preventive action can be effectively implemented.

The production processes of AS Harju Elekter do not have a significant negative impact on the environment. Nevertheless, the companies of the Group monitor and measure their environmental impact according to the environmental policy, organise hazardous waste collection and transfers to waste handling companies. Taking care of the environment

◀ The objective is to develop business processes, practices and systems based on the principle of continuous improvement and in accordance with the customers' needs and expectations

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
<b>Harju Elekter Elektrotehnika</b> <small>(since 2000)</small>	ISO 9001, ISO 14001				○				up to 1/2013	
<b>Harju Elekter Teletehnika</b> <small>(since 2002)</small>	ISO 9001, ISO 14001		○			○			up to 1/2014	
<b>Rifas</b>	ISO 9001			○			○		ISO14001 OHSAS18001	up to 12/2015
<b>Satmatic</b>	ISO 9001			○			○		ISO14001	up to 10/2015
<b>Draka Keila Cables</b> <small>(since 2000)</small>	ISO 9001, ISO 14001			○			○			up to 3/2015

● – recertification



is part of the daily routine of all the Group's companies. The companies of the Group follow a system developed for the collection of packages and packaging waste and for the recovery of packaging waste in accordance with the requirements of the Packaging Act. The Group is a contractual partner of the non-profit association, Estonian Pack Cycling. The stores of the AS Harju Elekter commerce group organise the collection, recycling and disposal of unusable electronic devices (boilers) in accordance with the Waste Act.

During the reporting year subsidiaries past several supplier audits carried out by customers. Following the principles of quality management and environmental policy the company continually focused on optimising important processes and on the efficient use of materials in order to reduce the resultant waste to a minimum. Fire safety training was organised for workers which consisted of a theoretical part as well as a field exercise. Estonian and Finnish subsidiaries continued the introduction of 5S

production principles in order to increase the productivity. The Finnish subsidiary also started the development project TOSI 2013 with the aim to reduce the delivery period.

According to the requirements of quality standards ISO 9001 and ISO 14001 the recertification of management systems was carried out in the subsidiary AS Harju Elekter Elektrotehnika and in January 2013 certificates for the next three years were issued. The recertification of management systems according to the quality standard ISO 9001 was also carried out in subsidiaries Satmatic Oy and Rifas UAB and the relevant certificates were issued to them for the next three years. Regular annual audits were carried out in AS Harju Elekter Teletehnika. The next recertification will be carried out in 2014. Consequently, the organisation of production in all the companies of the Group meets the requirements of the international quality and environmental management systems, ISO 9001 and ISO 14001.

◀ Group meets the requirements of the international quality and environmental management systems, ISO 9001 and ISO 14001

# Social Responsibility and Charity

The environment around us creates, as well as limits, our opportunities to act. During its almost half-century history of operation Harju Elekter has become one of the largest and most successful companies in Keila and in the region around it and we feel we have to take responsibility for the general development of the society, as well as the wellbeing of the local community. For us, social responsibility means daily considerations how to contribute to making life better in Estonia.

We have always supported financially and in other ways many initiatives that we strongly believe in. We value highly the long-term co-operation that makes the support more efficient. We continue supporting good ideas also in the future. Over the years four major areas of sponsorship have evolved within the Group.

## Bearing of social responsibility

Harju Elekter as a local large-scale enterprise is conscious of a certain responsibility for the general development of the region and the well-being

of the local community focusing mainly on children and youth by supporting their educational efforts and spending their leisure time in good surroundings. Therefore, the Group has concluded long-term sponsorship agreements with the Keila School as well as kindergartens, sport and hobby clubs in Keila.

## Supporting the education of engineers in Estonia

The company works in close co-operation with Estonian educational institutions in order to promote and develop the educating of engineers. Harju Elekter is a golden sponsor of Tallinn Technical University granting every year up to three scholarships for Bachelor's as well as Master's degree students in the field of electricity and mechanics. The Group also carries out several co-operation programs with the Tallinn Vocational Education Centre, Tallinn Polytechnic School and the Tallinn Construction School. Finnish subsidiary had a close co-operation with Satakunta University of Applied Sciences and Tampere Technical University.

◀ For us, social responsibility means daily considerations how to contribute to making life better



## Supporting and inspiring young sportsmen

The company has, above all, supported youth sports – focusing on long-term and constant sponsorship and taking into account the popularity of the sports. For several years the company has sponsored the young skiers and athletes of Nordic countries combined with the Estonian Ski Association. As from the season 2008/2009 the company has also supported the young skiers, Algo Kärp and Kein Einaste. The youth projects of the Estonian Ski Association are also aimed at the future focusing on the Winter Olympics in Sochi in 2014.

## Promoting recreational sport among the employees

In co-operation with the Harju KEK Athletic Club we do everything we can to facilitate an active and sporting lifestyle for our employees. Healthy workers, full of energy, represent a priceless value to the company.

Total amount of different support programmes in 2012 amounted to 19.8 (2011: 15.1) thousand euros.

## Corporate Target for 2013

The key to the development of the Group is continually in finding new markets and new customers, as well as in increasing the sales of the Group's products outside of Estonia, especially in neighbouring countries, in other European Union countries and further. In 2013 the Group will focus on finding new projects and involving customers and co-operation partners in Scandinavian countries, especially in Sweden.

The Group's expansion from product centred sales to the area of developing software programmes for controlling technological processes and power supply will continue. The goal is to offer clients comprehensive solutions which include electrical equipment, as well as programmes for their control. High quality customer relations have a critical role here.

◀ In 2013 the Group will focus on finding new projects and involving customers and co-operation partners in Scandinavian countries, especially in Sweden

The Group directs more and more resources into the development of products meant for end customers, in which lie long-term success and greater profitability. As regards the range of products and services the future aim is to offer a comprehensive service, starting with the development and production of the product and ending with the provision of guarantees and maintenance services.

The Group continually needs to focus on optimising costs and making the operation of the organisation more efficient. Subsidiaries continue to increase the efficiency by following the Lean production principles and implementing the 5S-model.

Today, consumers are more and more oriented at solutions based on renewable energy that offer energy efficient, individualised metering and monitoring possibilities. The targets and tasks of product development of the Group for the next few years have been drawn up bearing in mind these developments. Finding novel solutions and recognising new opportunities are the priorities of the development and the most important task for the engineering personnel of the Group's companies.

Companies of the Group continue to construct solar power stations and using the energy produced for self-consumption. However, in countries where it is possible the excess energy will be directed to public energy networks. By producing and selling or consuming such energy a substantial amount of resources can be saved.

In order to increase the competitiveness of the Group the co-operation between its subsidiaries gets closer year by year. The Estonian companies belonging to the Group use the same trade mark and co-operate also in marketing, e.g. use the same information channels and presentation material. Closer co-operation between the companies of the Group at every level offers additional opportunities for making flexible use of the Group's resources.

The Group has systematically reinforced its know-how by concluding license agreements, contributing to the improvement of qualifications and professional skills of its employees, etc. Investment in personnel is mainly targeted to the improvement of professional further education and raising their qualifications.

◀ Finding novel solutions and recognising new opportunities are the priorities of the development and the most important task for the engineering personnel of the Group's companies



# Share and Shareholders

The shares of AS Harju Elekter were first listed on the Tallinn Stock Exchange on September 30, 1997. Tallinn Stock Exchange is part of the largest exchange company in the world, the NASDAQ OMX Group, which was formed in 2008 after the merger of the Baltic and Nordic stock exchange group OMX and the NASDAQ Stock Market. It delivers trading, exchange technology and public company services across six continents, with over 3,900 listed companies.

The share capital of AS Harju Elekter is 12.18 million euros which is divided into equal ordinary shares. The symbol of a AS Harju Elekter share in NASDAQ OMX is HAE1T. ISIN: EE3100004250. The nominal value of a share is 0.70 euros. All shares are freely negotiable on the stock exchange and each share confers an equal right to vote and to receive a dividend. All the shareholders of the company are equal and there are no separate restrictions or agreements concerning the right to vote. According to the information available to AS Harju Elekter the agreements concluded with the shareholders do not include any restrictions related to the transfer of shares; neither do they include any specific power of audit.

In 2012, the NASDAQ OMX Tallinn index OMXT increased by 38.2% to 734.2 points lifting the Tallinn Stock Exchange among the first ten in the world. This was an anticipated recovery of the market after the downfall caused by uncertainty that affected European financial markets in 2011. The companies listed in the Tallinn Stock Exchange did well, their economic results improved and this was reflected in the rise in prices of their shares. The OMX Baltic Benchmark Cap GI increased by 21.8% during the year. However, the turnover of stock exchange transactions has fell to 136 million euros which is even less than in the first year of operation of the Tallinn Stock Exchange i.e. in 1996 when the actual trading lasted only 7 months. In 2012 the average daily turnover of the stock exchange was 0.54 (2011: 0.74) million euros and the average transaction volume was 2,603 (2011: 2,239) euros. The large-scale transaction with Tallink shares and the unsuccessful IPO of Pro Kapital were the most outstanding events of the year in the stock exchange.

## Key share data

EUR	2012	2011	2010	2009	2008
Number of shares (in thousand)	17,093,443	16,800,000	16,800,000	16,800,000	16,800,000
Nominal value	0.70	0.70	0.64	0.64	0.64
Closing price	2.64	2.28	3.02	2.07	0.99
Market value (in million)	45.94	38,30	50,74	34,78	16,63
Earnings per share, EPS	0.21	0.17	0.13	0.07	0.15
P/E	12.57	13.41	23.39	28.14	6.76
Dividend per share	*0.09	0.07	0.06	0.05	0.06
Dividend yield (%)	3.4	3.1	2.0	2.5	6.5
Dividend payout ratio (%)	44.5	42.4	46.5	69.9	43.6

\* Proposal of the Management Board

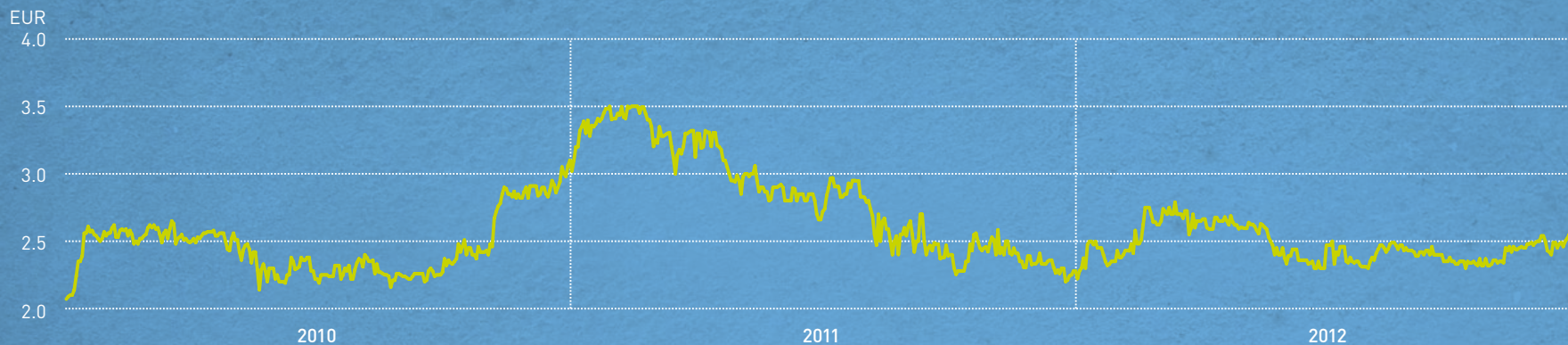
The share price of AS Harju Elekter increased in 2012 by 15.8% amounting to 2.64 euros and, as of December 31, the market value of the Group was 45.9 million euros. The total amount of transactions was

moderate but the number of shares traded increased – 760 thousand shares were involved in transactions. The list of shareholders also increased. At the end of 2012, AS Harju Elekter had 1,507 shareholders.

EUR	2012	2011	2010	2009	2008
Highest price	2.80	3.54	3.14	2.99	3.45
Lowest price	2.30	2.19	2.02	0.67	0.95
Closing price	2.64	2.28	3.02	2.07	0.99
Change (%)	15.8	-23.8	45.9	107.0	-70.9
Traded shares (pc)	759,869	663,917	2,039,910	1,559,830	4,634,592
Turnover (in million)	1.88	1.88	5.40	2.14	11.39



### Share of AS Harju Elekter in Tallinn Stock Exchange 2010-2012



### A comparison of AS Harju Elekter share indexes 2010-2012

for more information: [www.nasdaqomxbaltic.com/market/](http://www.nasdaqomxbaltic.com/market/)





## Shareholders structure

At the end of 2012, AS Harju Elekter had 1,507 shareholders. The number of shareholders increased during the year by 65 persons. The largest shareholder of AS Harju Elekter is AS Harju KEK, a company based on local capital which as at December 31, 2012 held 31.70% of AS Harju Elekter share capital. Members of the supervisory and management board and persons or companies associated with them hold 7.97% of the shares. The comprehensive list of shareholders is available at the website of the Estonian Central Register of Securities ([www.e-register.ee](http://www.e-register.ee)).

## Dividends

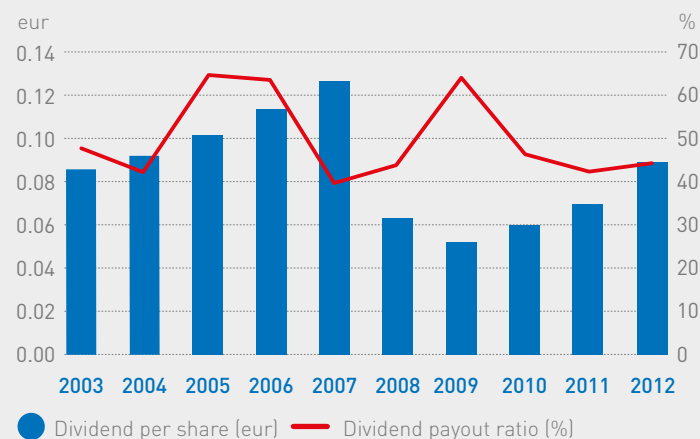
According to the dividend policy of the Group one third of the financial year's net profit is paid out as dividends. In addition the Group has an established practice of paying out dividends on gains from other financial investments. The actual ratio will be determined based on the Group's cash flows, development prospects and funding needs.

As a result of strong capitalisation the Management Board proposes to pay a dividend of 0.09 euros per share, totally 1.57 (2011: 1.18) million euros for the financial year 2012. This is 44.5% (2011: 42,4%) from total net profit.

## Shareholder structure by size of holding at 31 December 2012

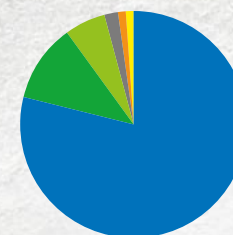
Holding	No of shareholders	% of all shareholders	% of votes held
→ 10%	2	0.13	42.61
1.0 – 10.0%	7	0.46	27.11
0.1 – 1.0%	53	3.52	15.75
← 0.1%	1,445	95.89	14.53
<b>Total</b>	<b>1,507</b>	<b>100.0</b>	<b>100.0</b>

## Dividends



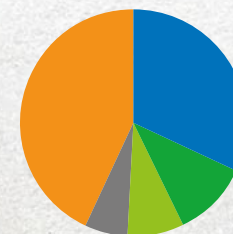
For dividend history and ratios, please refer to the Key share data table.

## SHAREHOLDERS by country



- Estonia **80%**
- Luxemburg **11%**
- USA **5%**
- Sweden **2%**
- Finland **1%**
- Others **1%**

→ 5%



- AS Harju KEK **32%**
- ING Luxembourg S.A. **11%**
- Mr. Lembit Kirsme **8%**
- Mr. Endel Palla **6%**
- Others **43%**



# Corporate Governance

## Corporate Governance Report 2012

As a company, AS Harju Elekter follows the Articles of Association of the company, the relevant legislation of the countries in which it operates and as a public company, AS Harju Elekter also observes the rules of the Tallinn Stock Exchange, the Principles of the Corporate Governance Code and the requirements to treat investors and shareholders equally. Accordingly, AS Harju Elekter complies, in all material respects, with the provisions of CGC. Explanations for departures from CGC are provided below. In addition, our corporate governance report contains information on the annual general meeting of 2012, the supervisory board, the management board and explains AS Harju Elekter's governance structure and processes.

### CGC Article 1.3.3

*An issuer shall make attendance and participation in the general meeting possible by means of communication equipment (e.g. the Internet) if the technical equipment is available and where doing so is not too cost prohibitive for the issuer.*

Since AS Harju Elekter does not have the required technical equipment and acquisition of such equipment

would be costly, currently attendance and participation in general meetings is not possible by means of communication equipment.

### CGC Article 2.2.1

*The Chairman of the Supervisory Board concludes a contract of service with the member of the Management Board on the fulfilment of his or her duties.*

The Management Board of the company has just one member. Managing director/CEO is responsible for the performance of company's strategic areas. He also concludes the contract.

### CGC Article 2.2.7

*The basic salary, performance pay, severance pay, other payable benefits and reward systems of each member of the Management Board, as well as their significant characteristics are presented in a clear and unambiguous form on the issuer's website and in the CGC report. The presented data are considered clear and unambiguous if they directly express the extent of the expenses to the issuer or the extent*

*of the likely expenses as of the day of disclosure.*

The pay of a member of the Management Board is given to Managing Director/CEO. The rate of pay of a member of the Management Board and the severance pay is set out in the contract of service and shall not be disclosed to the public under an agreement between the parties. The manager is entitled to receive a severance payment in the amount of 10 months' remuneration of a member of the Management Board.

Performance pay is paid to the members of the Management Board on an equal basis with the parent company's administrative. The performance pay is distributed according to the basic salary and work performance and the performance pay of the members of the Management Board is approved by the Chairman of the Supervisory Board. 80% of the performance pay is paid by quarter; the remaining 20% is paid after the results of the financial year have been determined.

Management, incl. Managing Director/CEO is paid an annual bonus of 0.3% of the consolidated net profit (belonging to the owners of the parent company) in total. The annual bonus is approved by the chairman of the Supervisory Board and is paid after the group's annual statement has been audited.

Additional remuneration for the length of employment is paid to all permanent employees (incl. Managing Director/CEO) on the basis of their length

of employment, including permanent employment in the Harju Elekter Group. The rate of additional remuneration is up to 10% of the basic salary.

### CGC Article 2.3.2

*The supervisory council shall approve transactions that are significant to the issuer and are entered into between the issuer and a member of its management board, or another person connected or close to them, and shall determine the terms of such transactions. Transactions approved by the supervisory council between the issuer and a member of the management board, or a person connected or close to them, shall be published in the issuer's Corporate Governance Report.*

In 2012 no such transactions were performed.

### CGC Article 3.1.3

*The Supervisory Board shall regularly assess the activities of the Management Board and its implementation of the Issuer's strategy, financial condition, risk management system, the lawfulness of the Management Board activities and whether essential information concerning the Issuer has been communicated to the Supervisory Board and the public as required. 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 change of the*



*committee structures, the Issuer shall publish the content of such changes and the period during which the procedures are in effect.*

In June 2010 the Supervisory Board of AS Harju Elekter formed the Audit Committee of the company following the relevant requirement provided for by the Authorised Public Accountants Act, affirmed its Statutes. In 2012, members of the Supervisory Board of AS Harju Elekter, Triinu Tombak and Andres Toome act as members of the Committee. The Audit Committee has the following tasks: observe and analyse the processing of financial information; the efficiency of risk management and internal audit; the process of audit control of annual accounts and consolidated accounts; the independence of the audit company and the auditor who represents the firm of auditors on the basis of law; as well as to submit proposals and recommendations to the Supervisory Council in issues provided by law. Details of the Audit Committee and its position in the organisation will be available on the company's website.

#### CGC Article 3.2.5

*The rate of the member of the Supervisory Board pay and the payment procedure established by the general meeting shall be presented in the issuer's CGC report, separately pointing out the basic salary and additional remuneration (including severance pay and other payable benefits).*

The shareholders' general meeting of AS Harju Elekter has the competence to elect and approve the membership of the Supervisory Board and the term

of its appointment. The shareholders' general meeting which was held on 3 May 2012 appointed the membership of the Supervisory Board for the following 5 years, setting 750 euros a month as the pay rate for a member of the Supervisory Board and 1,600 euros a month for the Chairman of the Supervisory Board, while the Chairman of the Supervisory Board working in company's management shall be subject to the reward system used in AS Harju Elekter (see also CGC explanation for CGC Article 2.2.7). No severance pay is allotted to members of the Supervisory Board.

#### CGC Article 3.2.6

*If a member of the Supervisory Board has attended less than half of the meeting of the Supervisory Board, this shall be indicated separately in the Corporate Governance Recommendations Report.*

During the reporting year, there was only one member who attended less than half of the meetings.

#### CGC Article 3.3.2

*A member of the supervisory council shall promptly inform the chairman of the supervisory council and the management board of any business offer related to the business activity of the issuer made to the member of the supervisory council or a person close or connected to the member of the supervisory council. All conflicts of interests that have arisen during the reporting year shall be disclosed in the Corporate Governance Report along with their resolutions.*

Members of the Supervisory Board must avoid any conflict of interest and follow the requirements of prohibition on competition. The Supervisory Board and the Management Board work in close co-operation, acting according to the Articles of Association and in the best interests of the company and its shareholders. In 2012 no conflicts of interests occurred.

### CGC Article 5.3

*Among other things, the issuer's general strategic trends approved by the Supervisory Board are available for shareholders on the issuer's website.*

The company's Management Board believes that strategy is a business secret and should not be made public. However, the general trends and significant topics have been included in the Management Board's management report published as a mandatory annex to the annual report.

### CGC Article 5.6

*The issuer discloses the times and places of meetings with analysts and of presentations and press conferences for analysts and investors or institutional investors on the issuer's website. The issuer enables shareholders to participate in these events and makes presentations available on its website. The issuer shall not hold meetings with analysts or presentations for investors immediately before the dates of disclosure of financial reporting.*

The company's activities are always based on the

principle of fair treatment of shareholders. Mandatory, significant and price sensitive information is first disclosed in the system of the Tallinn Stock Exchange and then on the company's website. In addition, each shareholder has the right to request additional information from the company if necessary and to arrange meetings. The company's Management Board does not consider it important to keep a time and agenda schedule of meetings with different shareholders. This rule applies to all meetings, including those immediately preceding the disclosure of financial reporting.

### CGC Article 6.2

*Electing the auditor and auditing the annual accounts.*

The general meeting of the shareholders of Harju Elekter of 3 May 2012 elected an auditor for the company for the period 2012–2014; the elected auditor is the auditing company KPMG Baltics OÜ. Information on the auditor is available at the company's website on the Internet. The auditor will receive remuneration according to a contract and the amount of the remuneration will not be disclosed under an agreement between the parties. Pursuant to the guidelines of the Financial Supervision Authority from 24.9.2003 – "On the rotation of the auditors of certain subjects of state financial supervision" – the company arranges rotation of the auditor, ensuring the independence of the auditor by changing the executive auditor at least once in every five years.



## Governance principles and additional information

A public limited company's AS Harju Elekter governing bodies are the shareholders' general meeting, the Supervisory and the Management Boards.

### General meeting

The general meeting is the company's highest governing body who have competence for amending the Articles of Association and approving new ones, changing the amount of share capital, removal of members from the Supervisory Board and the termination of the activities of the company, making decisions on the division, merging and transformation of the company with the precondition that at least 2/3 of the shareholders represented at the general meeting approve such decisions. General meetings may be annual or extraordinary. The annual general meeting convenes once a year within six months after the end of the company's financial year. An extraordinary general meeting is called by the management board when the company's net assets have declined below the level required by the law or when calling of a meeting is demanded by the supervisory council, the auditor, or shareholders whose voting power represents at least one tenth of the company's share capital. A general meeting may adopt resolutions when more than half of the votes represented by shares are present. The set of shareholders entitled to participate in a general meeting is determined 7 days before at the date of the general meeting.

The annual general meeting of 2012 was held on 3 May at Keskväljak 12 in Keila, Estonia. A total of 76.11% of the voting stock were represented. The general meeting approved the 2011 annual report and profit distribution, elected and appointed a new supervisory board of five members for the next five-year term and approved the procedure for remuneration of the supervisory board. The general meeting also appointed KPMG Baltics OÜ as an auditor of the company for 2012-2014, and approved the implementation of the private share issue programme (option programme) adopted at a general meeting of shareholders on 23 April 2009. The sixth item on the agenda of the general meeting included the planning of a share option programme for 2012-2015 for the members of the directing bodies, key specialists and engineers of the Group's companies as well as to members of directing bodies of associate companies of AS Harju Elekter, for involving them as shareholders of the company, for the purposes of motivating them to act towards achieving the better financial performance of AS Harju Elekter. Within the planned private placement, up to 600,000 new registered shares will be issued in 2015. The decision on organising the share issue shall be made by the general meeting of shareholders in 2015, provided that the market price of the share exceeds that of the issue price. Presentations were

made by the chairman of the management board, chairman of the supervisory board and auditor.

## Supervisory Board

The supervisory board plans the activities of the company, organises the management of the company and supervises the activities of the management board. The supervisory board meets according to need but not less frequently than once every three months. A meeting of the supervisory board has a quorum when more than half of the members participate. In 2012, the supervisory board met nine times. All members of the supervisory board attended all or most of the meetings. According to the Articles of Association, AS Harju Elekter's supervisory board has 3-5 members. The members are elected by the general meeting for a period of five years.

In connection with the expiration of the authorisation deadline of the Supervisory Board of AS Harju Elekter, the AGM assigned a five-member Supervisory Board for the next five-year period, at its meeting on 3 May 2012. The present members of board are Endel Palla (chairman), Ain Kabal, Madis Talgre, Triinu Tombak and Andres Toome. The Supervisory Board has the following membership: Endel Palla (Chairman and R&D manager of AS Harju Elekter) and members Ain Kabal (Viru Keemia Grupp AS, Head of Legal Department), Madis Talgre (Chairman of the Management Board, AS Harju KEK), Triinu Tombak (financial consultant) and Andres Toome (consultant).

Mr Palla has been working in Harju Elekter since 1969 (1985 -1999 as managing director) and keeps today company's R&D manager position. Mr Kabal is head of legal department of Viru Keemia Group AS and a lawyer, who has long-term experience in advising Group's companies on legal issues. Mr Talgre is a chairman of AS Harju KEK, the biggest shareholder of Harju Elekter (holding 31.7% of the shares of the company on 31.12.2012). Since 2007 Mr Toome (chairman of OÜ Tradematic) has been a member of the supervisory board. He complements the Board with investment experience. In 2012 was appointed a member of the Supervisory Board Triinu Tombak, to include more financial knowledge and experience to the Board. Two of the five members of the Supervisory Board – Triinu Tombak and Andres Toome – are independent.

The Group does not give the members of the Supervisory Board any benefits related to pension, more than provided by the law. At 31 December 2012, the members of the Supervisory Board owned in accordance with their direct and indirect ownerships totally 6.8% (2011: 15.7%) of Harju Elekter shares (note 23).

## Management Board

The management board is a governing body which represents and manages the company in its daily activity in accordance with the law and the Articles of Association. The Management Board has to act in the best economic interests of the company. According to the Articles of Association, AS Harju Elekter's



Management Board may have 1-5 members who are elected by the Supervisory Board for a period of three years. The Supervisory Board appoint also the chairman and the members as well as remove a member of the Management Board. Every member of the Management Board may represent the company in all legal acts.

In connection with the expiration of the authorisation deadline of the Management Board of AS Harju Elekter, the Supervisory Board assigned a one-member Management Board for the next three-year period, at its meeting on 4 May 2011, and appointed Andres Allikmäe, the former Chairman of the Management Board, as its Chairman. At the same meeting, the Supervisory Board also removed Lembit Libe and Karin Padjus from their positions as Members of the Management Board. The competence and authority of the Management Board are listed in the Articles of Association and there are no specialities nor agreements concluded which state otherwise.

The everyday business activities of the Group are managed by the Managing Director/CEO. Outside of Estonia compliance with good corporate governance is ensured by the local managements of the companies.

At 31 December 2012, the members of the Management Board owned in accordance with their direct and indirect ownerships totally 1.1% of AS Harju Elekter shares (note 23).

More specific information about the education and career of the members of the management and supervisory boards, as well as their membership in the management bodies of companies and their shareholdings, have been published on the home page of the company at [www.harjuelekter.ee](http://www.harjuelekter.ee).

### Additional management bodies and special committees

Bearing in mind that the top management of the company is relatively small in number the need for forming special committees or any other additional management bodies has not yet occurred. The necessary procedures are regulated by rules. For better risk management of the Group an internal auditor has been established which regularly reports to the management of the Group. In 2010 the Supervisory Board of AS Harju Elekter following the relevant requirement provided for by the Authorised Public Accountants Act formed the Audit Committee of the company. The Audit Committee has the following tasks: observe and analyse the processing of financial information; the efficiency of risk management and internal audit; the process of audit control of annual accounts and consolidated accounts; the independence of the audit company and the auditor who represents the firm of auditors on the basis of law; as well as to submit proposals and recommendations to the Supervisory Board in issues provided by law. In 2012, the members of the Supervisory Board of Harju Elekter – Triinu Tombak and Andres Toome – were appointed as members of the Committee.

## Information management

As a publicly traded company AS Harju Elekter follows the principles of openness and equal treatment of investors. The information requested by the rules and regulations of the stock exchange is published regularly on the due dates. AS Harju Elekter therefore follows the principle of not publishing estimates but communicates and comments only information concerning events which have actually happened.

In order to keep investors and the public informed AS Harju Elekter administers a home page which includes all stock exchange notices, business reports and an overview of the company's background, products and other important issues. All subsidiaries of the Group also have home pages.

## Auditors

According to the decision of the general meeting of the shareholders (3.5.2012) the audits of AS Harju Elekter for the years 2012–2014 are carried out by KPMG Baltics OÜ. Audits in subsidiaries outside of Estonia are carried out by Baltijos Auditas UAB in Lithuania and KPMG Oy in Finland.



# Information About the Supervisory and Management Boards



**ENDEL PALLA** (19.06.1941)  
Chairman of the Supervisory Board

**Education:** Tallinn University of Technology (TUT), engineer

**Career:**

1985 – 1999 Harju Elekter, included 1991 – 1999 AS Harju Elekter CEO/Ch of the Management Board since 1999 Ch of the Supervisory Board of AS Harju Elekter

**Participation in the management bodies of business organisations**

AS Harju Elekter Teletehnika, AS Harju Elekter Elektrotehnika – Ch of the Supervisory Board; AS Draka Keila Cables, AS Harju KEK, AS Laagri Vara – member of the Supervisory Board; Satmatic Oy – Ch of the Management Board; Rifas UAB – member of the Management Board

**Social activities:**

1995- Tallinn Directors Club, since 2011 member of the board  
2004- Estonian Trade Council, member of the Supervisory Board  
2010- Estonian Chamber of Commerce and Industry, member of the Supervisory Board  
**Endel Palla owns** 1,053,828 of Harju Elekter shares. He has direct participation 6.06% and indirect participation 0.34%.



**AIN KABAL** (10.06.1962)  
Member of the Supervisory Board

**Education:** University of Tartu, lawyer

**Career:**

2004-2006 Hansa Law Offices OÜ, partner  
2011- Viru Keemia Group AS, head of legal dept

**Participation in the management bodies of business organisations**

Investkonsult OÜ – manager Lincona Konsult AS – Ch of the Supervisory Board

**Ain Kabal owns** 13,660 Harju Elekter shares. He has direct participation in share capital 0.08%. He doesn't have indirect holdings.



**TRIINU TOMBAK** (7.01.1971)  
Member of the Supervisory Board

**Education:** Tallinn University of Technology (TTU), economist

**Career:**

1993-1998 Estonian Investment Bank, Optiva Bank. Loan dept, analyst (1993-1995), project manager (1996). Investment dept., senior project manager (1997-1998)

1995- 1996 World Bank, Washington D.C. World Development Report 1996, project assistant

1998-2007 AS Harju Elekter, member 2001-2009 World Bank, Washington D.C. Publishing dept, consultant (2001-2006), sales manager of online databases and e-Library (2006-2009)

**Triinu Tombak owns** 10,000 of Harju Elekter shares. She has direct participation 0.06%. She doesn't have indirect holdings.



**MADIS TALGRE** (17.04.1960)  
Member of the Supervisory Board

**Education:** Tallinn University of Technology (TUT), engineer

**Career:**

1983-1987 Põlva KEK, engineer  
1987-1990 Põlva KEK, production dept. manager  
1990-1999 Põlva KEK, manager  
1999- Harju KEK, manager

**Participation in the management bodies of business organisations**

Põlva Koit OÜ, AS KMV, AS Entek – Ch of the Supervisory Board; EKE Invest AS and its subsidiaries, Avraal AS – member of the Supervisory Board; Laagri Vara AS – member of the Management Board

**Madis Talgre owns** 31,000 Harju Elekter shares. He has direct participation in share capital 0.18%. He doesn't have indirect holdings.



**ANDRES TOOME** (9.01.1972)  
Member of the Supervisory Board

**Education:** Tallinn University of Technology (TUT), economics and business administration

**Career:**

1992-1999 Estonian Bank, Estonian Investment Bank, Optiva Bank and Sampo Bank Estonia, head of investment dept.

**Participation in the management bodies of business organisations**

AS Tallinna Olümpiapurjespordikeskus – member of the Supervisory Board; OÜ Tradematic, OÜ Norber Grupp, Beebimaailm Grupp OÜ, OÜ M50, Hermes Worldwide OÜ – member of the Management Board.

**Andres Toome owns** 10,000 Harju Elekter shares. He has direct participation 0.06% and indirect participation 0.06%.



**ANDRES ALLIKMÄE** (7.02.1957)  
Managing Director/CEO

**Education:** Tallinn University of Technology (TUT), engineer

**Career:**

1982-1991 Harju Elekter, engineer and head of department  
1991-1999 Managing director of AS Harju Elekter Cable Harnesses Factory  
1999- Member of the Board and CEO of AS Harju Elekter

**Participation in the management bodies of business organisations**

AS Harju Elekter Elektrotehnika, AS Harju Elekter Teletehnika, AS Draka Keila Cables, – member of the Supervisory Board; Rifas UAB, Satmatic OY, PKC Group Oyj Harju Elekter AB – member of the Management Board  
**Andres Allikmäe owns** 196,800 of Harju Elekter shares. He has direct participation 1.13%. He doesn't have indirect holdings.





Please find the year 2012 audited annual report of AS Harju Elekter here  
[http://www.harjuelekter.ee/sites/default/files/public/pdfid/HE\\_yearbook2012\\_eng.pdf](http://www.harjuelekter.ee/sites/default/files/public/pdfid/HE_yearbook2012_eng.pdf)



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