

# Corporate Governance Report 2020

The Corporate Governance Code is a set of guidelines and advisory rules, which primarily listed companies are expected to follow. Harju Elekter follows the Corporate Governance Code, except of otherwise noted in this report.

AS Harju Elekter is a public limited company whose managing bodies are the general meeting of shareholders, the supervisory board and the management board.

## General meeting

### Exercise of rights by shareholders

The general meeting of shareholders is the highest managing body of AS Harju Elekter, which is authorised, among others, to amend the articles of association and the share capital, elect and remove members of the supervisory board, appoint the auditor, approve the annual report and distribute profit, and decide on the issues provided for by law. Each shareholder has the right to participate in the general meeting, speak up on the items presented in the agenda during the general meeting, and submit reasoned questions and make proposals.

Each share of Harju Elekter grants equal voting and dividend rights. All shareholders are equal and there are no separate restrictions and agreements concerning the right to vote. As far as is known to Harju Elekter, the mutual contracts between shareholders include no restrictions on the transfer of securities or other specific rights of control.

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

The annual general meeting takes place once a year not later than within six months after the end of the financial year of the company. A special general meeting is called by the management board in accordance with law. The management board gives notice of an annual general meeting at least three weeks in advance. Harju Elekter published the notice calling an annual general meeting on 3 June 2020 via the information system of the Nasdaq Tallinn Stock Exchange and on its website, and on 5 June 2020 in Äripäev. Shareholders could send questions about the topics on the agenda to the e-mail address given in the notice and read the annual report on the website of Harju Elekter and at the company's location at Paldiski mnt 31, Keila. The shareholders submitted no questions about the topics on the agenda before the general meeting of shareholders in 2020.

### Holding a general meeting

The general meeting is authorised to adopt resolutions if over one-half of the votes represented by shares are present thereat. A resolution of the general meeting is adopted if over one-half of the votes represented at the general meeting are in favour of the resolution, unless the law prescribes a greater majority requirement. The general meeting of shareholders of AS Harju Elekter of 2020 was held on 30 June in the Keila Cultural Centre at Keskväljak 12. The meeting was held in Estonian. All members of the supervisory board and the management board attended the meeting. The auditor did not attend the general meeting. The CEO and the chairman of the supervisory board of Harju Elekter made presentations. 52 shareholders or their authorised representatives attended the meeting and they represented 64.70% of the total number of votes. Harju Elekter does not have the appropriate reliable and technically secure equipment, which is why the general meeting could not be viewed or attended via means of communication. The general meeting approved the annual report for 2019 and profit distribution proposal and decided to pay the shareholders dividends for 2019 in the amount of 0.14 euros per share, 2.5 million euros in total. The decisions made at the general meeting were published in the information system of the Nasdaq Tallinn Stock Exchange and on the company's website.

## Management board

### Functions of the management board

The management board is the managing body of AS Harju Elekter that represents the company and directs the everyday activities of the company in accordance with the requirements of law and the articles of association. Each member of the management board may represent the company in all legal acts. The management board is required to act in the most economically purposeful manner and make everyday management decisions independently, proceeding from the best interests of Harju Elekter and the shareholders, and leaving aside their personal interests.

### Composition and remuneration of the management board

The management board consists of one to five members. The members of the management board are elected by the supervisory board for a term of three years. To elect a member of the management board, his or her written consent is required. The chair of the management board is appointed by the company's supervisory board.

The long-term CEO of Harju Elekter Andre Allikmäe announced in late 2019 that he would be moving into the position of business development manager in the company's executive management after the expiry of his authorisation as member of the management board on 3 May 2020. The supervisory board of Harju Elekter appointed recent member of the management board and CFO Tiit Atso the new CEO as of 4 May 2020 at the meeting held on 16 March 2020.

The management board of AS Harju Elekter has two members as of 4 May 2020. CEO Tiit Atso is responsible for the general and strategic management, daily business activities and financial issues of the Group. Member of the management board Aron Kuhi-Thalfeldt is responsible for the company's property and energy areas. The members of the management board participate in the work of the managing and control bodies of the Group's subsidiaries.

Remuneration is paid to the members of the management board according to the contract of a member of the management board. Performance pay is paid to the members of the management board on the same grounds as to the administrative staff of the parent company. Performance pay is divided on the basis of the basic remuneration and work contribution, whereby the performance pay of a member of the management board is coordinated with the Chairman of the Supervisory Board. Up to 80% of performance pay is paid on a quarterly basis, while the remaining 20% is paid out after the approval of the results of the financial year. The top management, including management board members also receive an annual bonus, which amounts to 1.0% collectively of the consolidated net profit. The annual bonus is approved by the chairman of the supervisory board and it is paid out after the Group's annual accounts have been audited. Members of the management Board are entitled to severance pay up to eight month's remuneration of a management board member.

In 2020, the remuneration paid to the members of the management board including the performance fee for the previous year, social taxes and the contractual severance pay of the resigned member of the management board totalled 509 thousand euros. Harju Elekter does not disclose the remuneration paid to the members of the management board individually, because it believes that this is sensitive information the disclosure of which is unimportant and would not give added value to the shareholders. As at the end of 2020, the members of the company's management board held a total of 0.06% (2019: 1.33%) of the company's shares directly and via indirect holdings (Note 21.3).

Detailed information about the education, career, participation in the managing bodies of companies and shareholdings in AS Harju Elekter of the members of the management board is given on the company's website [www.harjuelekter.com](http://www.harjuelekter.com).

#### Conflict of interests

The members of the management board abstain from conflicts of interest and follow the requirements of prohibition of competition. The members of the management board must inform the other members of the management board and the chairman of the supervisory board of Harju Elekter of any business propositions made to them, the persons close to or related to them, which are associated with the company's economic activities. The supervisory board decides on the conclusion of transactions with a member of the management board of Harju Elekter or persons close to or related

to them that are important for the company and determine the terms and conditions of such transactions. A member of the management board of Harju Elekter does not demand or accept from third parties money or any other benefits for personal purposes in connection with their work or grant to third parties any unlawful or unreasonable advantages on behalf of the issuer. There were no conflicts of interest or incidents of corruption in 2020.

## Supervisory board

### Functions of the supervisory board

The supervisory board plans the activities of the Company, organises the management thereof and supervises the activities of the management board. The supervisory board issues orders to the management board for the organisation of the management of the company. The supervisory board decides on the company's development strategy and investment policy, the conclusion of transactions with immovables and the approval of the investment and annual budget prepared by the management board. Meetings of the supervisory board are held when necessary but not less frequently than once every quarter. The supervisory board has a quorum if over a half of the members of the supervisory board are present. Nine meetings of the supervisory board were held in 2020. Endel Palla, Arvi Hamburg and Triinu Tombak attended all meetings of the supervisory board; Andres Toome and Aare Kirsme attended eight meetings.

### Composition and remuneration of the supervisory board

According to the articles of association, the supervisory board of Harju Elekter has three to five members. The members of the supervisory board are elected by the general meeting for a term of five years. On 27 April 2017, the annual general meeting of shareholders elected the following five-member supervisory board for the public limited company for a period of five years: Endel Palla, Arvi Hamburg, Aare Kirsme, Triinu Tombak and Andres Toome. The Chairman of the Supervisory Board is Endel Palla, who has been working for Harju Elekter since 1969. Two of the five members of the supervisory board – Arvi Hamburg and Triinu Tombak – are independent members. The authorities of the members of the supervisory board remain valid until 3 May 2022.

The remuneration of a member of the supervisory board and the chairman of the supervisory board determined by the general meeting of shareholders as of 4 May 2017 is 1,000 euros per month and 1,600 euros per month, respectively. In addition to this, the fee for attending meetings in the amount of 200 euros was determined for members of the supervisory board, which is not paid if the member of the supervisory board attends the meeting by telephone. The members of the supervisory board working in executive management are paid a performance fee on the same basis as to the members of the management board. In 2020, the remuneration paid to the members of the supervisory board of AS Harju Elekter with the social taxes totalled 110 thousand

euros, including 28 thousand euros paid to the Chairman of the Supervisory Board. The Group will not be obliged to pay compensation when the authorisation of the members of the supervisory board expire or are terminated. The Chairman of the Supervisory Board is an exception, as he has the right to receive severance pay in the amount of the development director's salary for six months. As at the end of 2020, the members of the company's supervisory board held a total of 9.45% (2019: 9.45%) of the company's shares directly and via indirect holdings (Note 21.3). Detailed information about the education, career, participation in the managing bodies of companies and shareholdings in AS Harju Elekter of the members of the management board is given on the company's website [www.harjuelekter.com](http://www.harjuelekter.com).

#### Conflict of interests

The members of the supervisory board abstain from conflicts of interest and follow the requirements of prohibition of competition. In their activities as a member of the supervisory board, a member of the supervisory board prefers the interests of the issuer to their personal interests or the interests of third parties. Members of the supervisory board do not use commercial offers aimed at the issuer in their personal interests. A member of the supervisory board will not vote at the meetings of the supervisory board if granting consent to the conclusion of a transaction between the member of the supervisory board and Harju Elekter is being decided or if a similar conflict of interest is caused by a transaction of a related party of the member of the supervisory board. There were no such conflicts of interest in 2020. Also, no significant transactions were concluded in 2020 between Harju Elekter and the members of the supervisory board or persons close to or related to them.

#### Cooperation between the management board and the supervisory board

The management board and the supervisory board cooperate closely for the purpose of the best protection of interests of Harju Elekter. The management board regularly informs the supervisory board of any important matters that concern planning the activities of the Group as well as its business activities and draws particular attention to important changes in the business activities of Harju Elekter. The management board forwards data, incl. financial reports, to the supervisory board in sufficient time prior to supervisory board meetings. The management of the company is governed by relevant laws, the articles of association and the decisions of and the goals set by the meetings of shareholders and the supervisory board.

#### Diversity policy

Pursuant to subsection 242 (4) of the Estonian Accounting Act, a large company who has issued securities that grant the right to vote and these have been accepted for trading on the regulated securities market of Estonia or another contracting state must describe the diversity policy implemented in the company's management board and the

highest managing body, and the results of its implementation in the reporting year in its corporate governance report. If the diversity policy has not been implemented in the reporting year, the reasons of this must be explained in the corporate governance report.

AS Harju Elekter has not considered it necessary to prepare a document covering diversity policy and people are elected and appointed to the highest managing bodies primarily in consideration of the possible added value that they bring to the management of the Group with their knowledge and skills, and their suitability. Nobody is discriminated against on the grounds of age, gender, religion, origin or other characteristics.

#### Publication of information

As a listed company, AS Harju Elekter proceeds from the principles of openness and equal treatment of shareholders. The information required in the stock exchange regulations is published regularly in accordance with the deadlines, and the company thereby follows the principle that it will not publish any forecasts – only factual events that have taken place are reported and commented. This information is published in Estonian and English on the websites of the Nasdaq Tallinn Stock Exchange and the company and via the information storage system managed by the Financial Supervision Authority. In order to quickly inform the shareholders and the public, the company has a website that includes stock exchange notices, economic reports, compositions of the management board and the supervisory board, information on the auditor, an overview of the Group, its history, products and other important information. Unlike point 5.3 of the CGC, the management board of the company finds that strategy is a trade secret of a company and not subject to disclosure. The general directions and important topics have been outlined in the management report. The company does not find it important to keep a schedule regarding the time and agenda of the meetings of different shareholder according to point 5.6 of the CGC, because the information discussed at the meetings has already been published. The company always proceeds from the principle of equal treatment of shareholders in its activities. Mandatory, important and price-sensitive information is first disclosed in the system of the Nasdaq Tallinn Stock Exchange and then on the websites of the Financial Supervision Authority and the company. Each shareholder also has the right to request additional information from the company and set up meetings. This rule applies in the case of all meetings, also immediately before the disclosure of financial reports.

#### Financial reporting and auditing

AS Harju Elekter publishes yearly the annual report and quarterly its interim reports. Annual reports are audited and approved by the supervisory board and the general meeting. A regulation of the European Commission entered into force on 18 June 2019,

according to which the issues whose securities have been accepted for trading on the regulated market of a European Union Member State must, as of 1 January 2020, submit their consolidated annual financial reports in the European Single Electronic Format (ESEF). Pursuant to article 4(7) of the Transparency Directive, Member states may permit issuers to submit annual financial reports in the electronic format as of the financial year that starts on 1 January 2021 or later. Member States may postpone the implementation of the ESEF requirements by a year if the Member State informs the European Commission of the respective intention. The resolution on postponement of the implementation of the ESEF has not been adopted in the legislation of Estonia by the time this report is submitted, but the Financial Supervision Authority and the Ministry of Finance have approved the postponement.

According to the resolution of the general meeting of shareholders of 3 May 2018, AS Harju Elekter and its subsidiaries are audited by PricewaterhouseCoopers from 2018-2020, except for Energo Veritas OÜ, which is audited by Baker Tilly Baltics OÜ and Harju Elekter Services AB, which is audited by Allians Revision & Redovising AB. The information on the auditor is accessible on the company's website. The auditors are remunerated for their work according to contract and the size of the remuneration is not disclosed by agreement of the parties. The next election of the auditor will take place at the annual general meeting in 2021. During the reporting period, the auditor did not inform the supervisory board of any significant circumstances that have become known to them, which may affect the work of the supervisory board and the management of the issuer. Neither did the auditor inform the supervisory board of any threats to the auditor's independence or professionalism. The auditor gave the audit committee formed by the supervisory board a written overview of the course of the audit of the company in 2020, the observations made and any other important topics that were discussed with the management board of the company.

#### Additional managing bodies and committees

The necessary procedures in the company are regulated with rules and guidelines, and there has been no practical need for the establishment of additional managing bodies and committees (including remuneration committee, appointment committee).

#### Audit committee

In 2010 the supervisory board of the public limited company formed an audit committee in relation to obligation arising from the Auditors Activities Act, whose task is to monitor and analyse the processing of financial information, the efficiency of risk management and internal control, the process of auditing the consolidated financial statements, the independence of the audit firm and the auditor who represents the audit firm on the basis of law, and make proposals and recommendations to the supervisory board in the issues stipulated by law. The audit committee is an advisory body subject to supervision

by the supervisory board. The audit committee of AS Harju Elekter has two members. Members of the supervisory board Triinu Tombak (chairman) and Andres Toome belong to the committee since 2012.