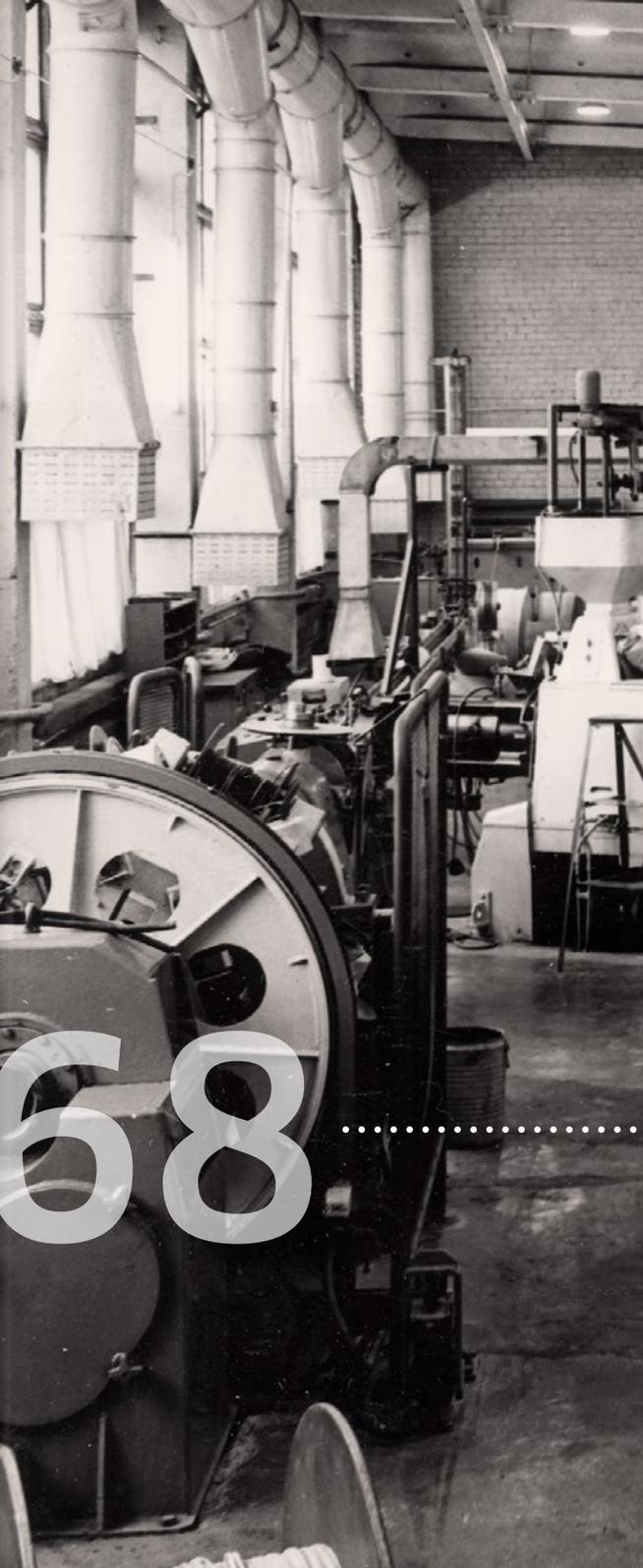


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2013

Yearbook



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http://www.harjuelekter.ee/sites/default/files/public/pdfid/HE_annualreport2013_eng.pdf

INFORMATION to the Shareholders

Annual General Meeting

The AGM of shareholders of Harju Elekter will take place on May 8 2014, 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 € 0.10 per share for the financial year 2013. The list of shareholders who are entitles to dividends will be closed on May 22, 2014 at 11.59 p.m. The dividends will be transferred to the bank accounts of shareholders on May 27, 2014.

The Publication of Financial Reports in 2014

Harju Elekter informs you that in the year 2014, the consolidated financial results of AS Harju Elekter will be published as follows:

2014	1Q results	06.05.2014
2014	2Q results	06.08.2014
2014	3Q results	05.11.2014

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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WE CELEBRATE our Anniversary with a Feeling of Gratitude

Endel Palla
Chairman of the Supervisory Board

2013 was an anniversary year for AS Harju Elekter – as last autumn 45 years had passed since the beginning of cable production. During that period the Group has become an internationally renowned and acknowledged company. We have come a long way bearing different names under different social regimes. We have been operating under the internationally registered trade mark of AS Harju Elekter since 1983. All these years of activity are united by the common denominator of close co-operation between the employees of the company and our customers and partners.

Looking back at the years that have passed we are pleased to acknowledge that the Group has always been free to operate and make decisions independently. Competitive salaries, a pleasant working environment and good relations between the people working in the company have been the key to our success. We have been innovative and designed and created many essential products. Every year we have earned a profit and that has allowed us to set up proper production premises and invest in modern equipment and technologies in order to survive,



The journey
of Harju Elekter
through **45**
years



continue our business and be competitive. We have also been able to keep the salaries of our employees above the average of the region and keep ahead of inflation. In the light of the anniversary year I have to admit that one of our greatest achievements was the fact that we were able to attract sufficient foreign capital at the end of the 80's to establish several joint ventures in the field of electric equipment and to create more than 2,500 jobs here in the Keila Industrial Park. Today, all these companies belong among the best enterprises of Estonia. I have great hopes for the future and I am sure that when AS Harju Elekter celebrates its 50th Anniversary it will be an even stronger company.

Although the net sales of the Group in 2013 were a bit less than in 2012 a lot of effort was made to reinforce the future transactions. When looking back to 2013 it cannot be overlooked that we have worked effectively in improving substations, winning public procurement for the next 3+1+1 years and in developing a reliable customer base in our most important target markets in Scandinavian countries. From the point of view of the further development of the Group the increase in the net sales in neighbouring countries is our top priority, but the importance of the domestic market should not be underestimated. All development activities of the Group have been focused on ensuring such a balanced development.

Stock prices on the Estonian security market continued to increase in 2013 as did the prices of the shares of AS Harju Elekter increasing within a year by 2.3% amounting to 2.70 euros. The market value of the company was 47.0 million euros as of December 31, 2013. However, in the rapidly changing economic environment the fact that our shares are dividend shares has become even more important than the fluctuation of their price. AS Harju Elekter has paid dividend to its shareholders all the time it has been listed on the stock exchange and the continually high number of shareholders shows that the trustworthiness and the stable dividend policy of the company is highly valued. We promise to maintain this policy.

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

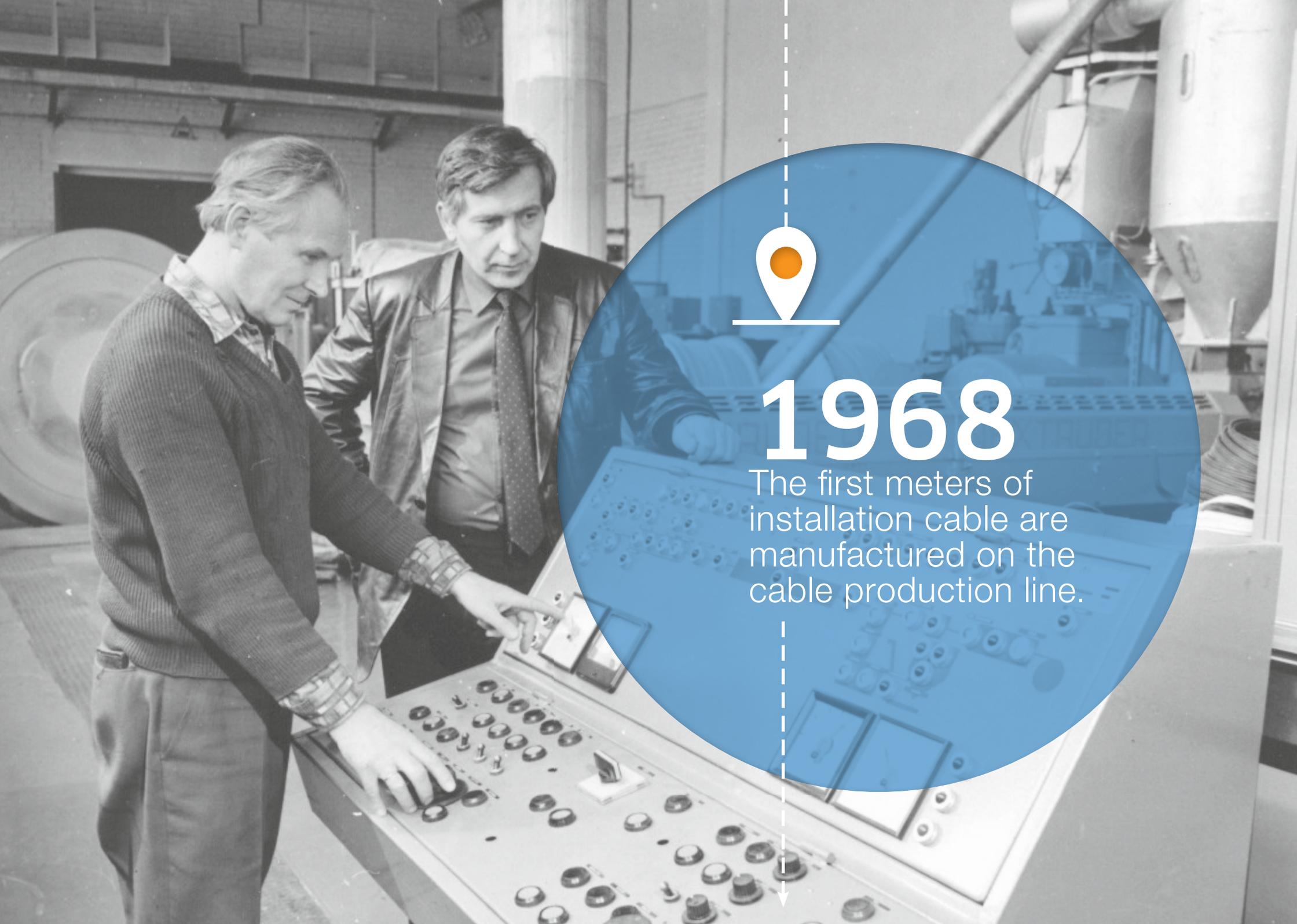


Endel Palla
Chairman of the Supervisory Board



1968

The first meters of installation cable are manufactured on the cable production line.





The SUCCESS Depends on the Economy but Even More on People

Andres Allikmäe
Managing Director/CEO

The circle of customers and the area of supply of the Harju Elekter Group have been continually expanding and the company has lost its immunity to fluctuations in the world economy. The success effect of Estonia and the Baltic states as a whole has also receded. We have established ourselves in foreign markets and now we need a totally new way of thinking and decision making that is novel for Estonia, as well as for all the enterprises that keep its economy going. The new economic reality with its restraint nature that has been forming during the recent years has become a norm rather than an exception also in the area of activities of our company. But even this sort of sustainability requires a lot of effort.

Values are about to shift. More and more attention should be paid to the actual needs of customers and to working on good customer relations. The value of every person will increase.

The year 2013 was intensive for Harju Elekter Group. It was full of events, important choices and success. Among others was the successful participation of our subsidiary, AS Harju Elekter Elektrotehnika, in the public procurement of substations and this should be continued as it resulted in the conclusion of contracts amounting to a total value of 17 million euros covering the supply of 2000

prefabricated substations during the next three year period (with the possibility to extend the contract for another two years). It is important to mention that the offered technological solutions are provided with the functions of the so-called “smart grid”. During the financial year in question the companies of the Group participated actively in different specialised fairs the most important of which was the leading electrical engineering fair, Elfack in Sweden, held in Nordic countries. The strong market position, stable customer basis and traditionally strong economic results of AS Harju Elekter were also noticed outside of Estonia as the Swiss asset management company, CE Asset Management, appointed it the best among Estonian companies and among the TOP5 in the Baltic countries, awarding it with the Corporate Excellence Award.

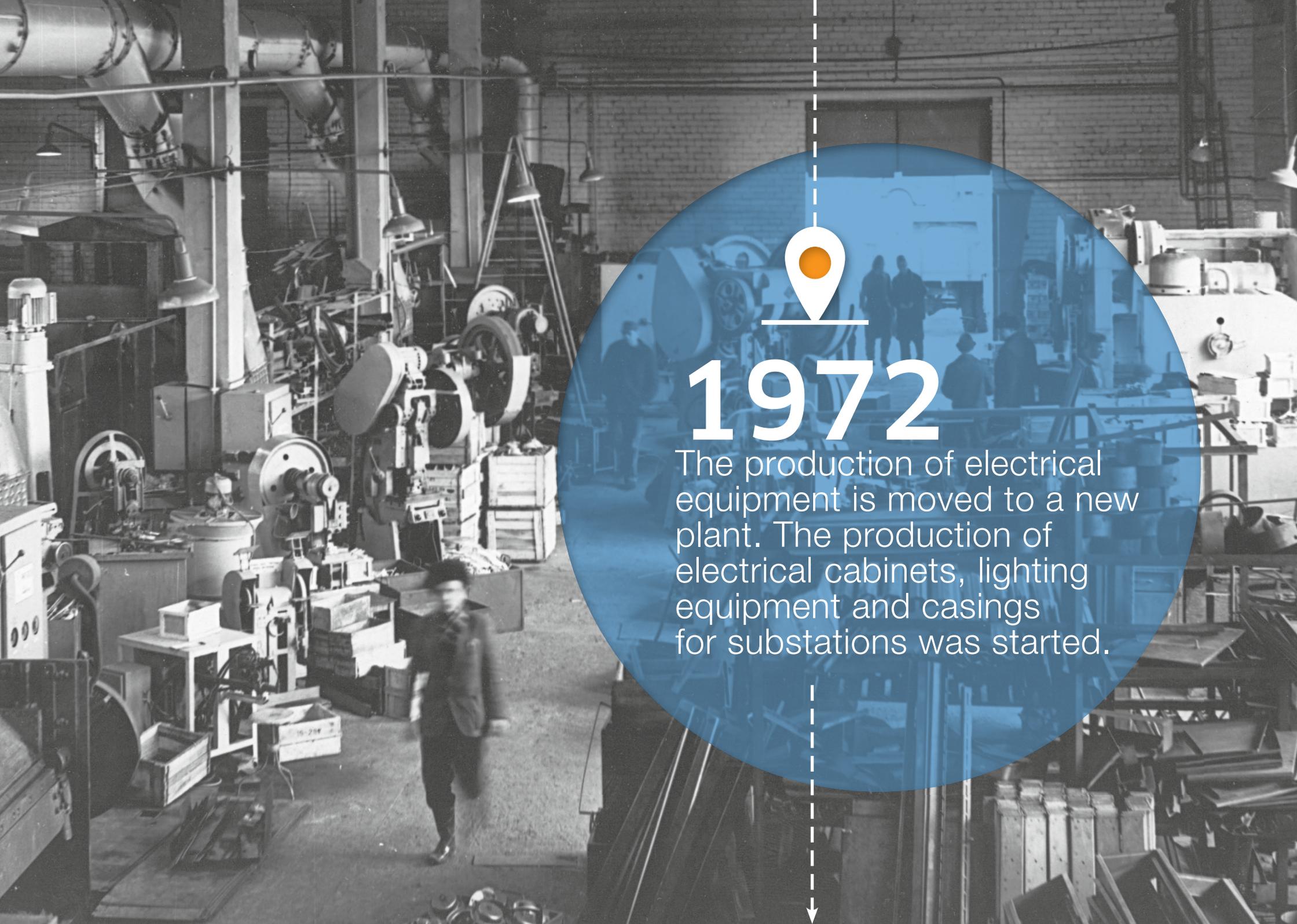
Although I rate the financial results of the Group in 2013 in every way satisfactory and up to expectations we still have to admit that the Finnish, as well as the Lithuanian segment did not let us pass the sales of the previous year. The consolidated sales volume of Harju Elekter Group decreased by 8.5% amounting to 48.3 million euros and the operating profit decreased by 11.5% amounting to 1.7 million euros. The operating profit before depreciation was only 4.9%. However, thanks to the return from financial investments and holding activities in 2013 the consolidated net profit of the Group increased by 46.8% amounting to 5.2 million euros and the net profit per share increased by 0.30 euros. The amount of investments also increased in 2013 and the versatile business activities of the Group ensured strong cash flows. Our company is practically free from debt using only short-term credit for flexible management of its business. The Group has a very strong balance sheet where basic assets form 77.6% of the value of assets and the owners' equity covers almost 90% of the balance sheet total.

As a socially responsible company we have for years supported technical higher education, promotion of the speciality of electrical engineering, as well as sports and hobbies of youngsters living in the area where we are located. Just as we see our own business model as sustainable, customer friendly and human centred, we also feel the social responsibility and want to participate as one of the opinion leaders in the general development of society.

On behalf of AS Harju Elekter I would like to thank all our customers who have trusted us all these 45 years of action. I would also like to thank our employees and show my respect to our shareholders for their support. I hope that our co-operation with all our partners and stakeholders will continue successfully. We will do our best to ensure that Harju Elekter Group justifies your trust as the manufacturer of electrical equipment and automation solutions and as a direction indicator in the development of electrical engineering solutions.



Andres Allikmäe
Managing Director/CEO



1972

The production of electrical equipment is moved to a new plant. The production of electrical cabinets, lighting equipment and casings for substations was started.

AS HARJU ELEKTER

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. 62.8% of the products are marketed outside Estonia.

Mission

To be well-known and accepted manufacturer of MV/LV electrical equipment and automation solutions 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.



OVERVIEW of the Economic Environment

Global Economy

The world's economic growth slowed down in the second half of 2012 and remained weak all through the 2013. At the same time, the gap between the rates of economic growth in different countries increased. While the economy of the US was doing better than expected the eurozone was still suffering from uncertainty mainly related to the fiscal policy and reforms of the financial sector. The Chinese financial markets were unsettled. However, the political will for market economy reforms increased. The economy in Nordic countries was also influenced by the weakness of the world's economy. Although the economies of the peripheries of Europe are continually weak and the average unemployment rate is still high the currency pair of euro-US dollar gained strength against all other currencies of the world. The year 2013 was also successful for financial markets and the demand for European financial assets increased notably. Almost all larger asset classes and markets demonstrated a positive rate of return, with the only exception of the asset class of raw materials.

Euro-area

The economy of the eurozone recovered in 2013 at the expected pace. The economic recession that had lasted for six successive quarters ended in the second quarter of 2013 but the economic development in different countries was depending largely on the actual implementation of structural reforms, labour market perspectives and competitiveness on global markets. According to the forecast prepared in co-operation between central banks of the eurozone the economic growth within the eurozone as a whole will accelerate during the forthcoming years. The inflation in the eurozone remained at 1.4% and it is expected to slow down due to the weak domestic demand and the drop in prices of fuel and raw material for food. The increase in energy prices is also expected to be minimal due to the drop in the price of oil. The European financial markets were stable for the whole year and the interest rates were low. The Governing Council of the European Central Bank has confirmed that monetary policy interest rates will remain low for a long period.



Opening of a new building including an electronics plant, accommodations areas and a new canteen.

Overview of the Economic Environment

As to the near future among Nordic countries the Swedish economy has the best chance for growth as the private consumption and the volume of export are expected to increase there. Norway differs from other Nordic countries as the cooling of real estate markets and the small volume of investment has inhibited economic activities. Slow recovery has been predicted for Denmark and the revival of the Finnish economy depends on export markets.

Latvia, Lithuania, Russia

Like in Western Europe the economy recovered also in almost all Central and Eastern European countries. However, there were great differences between countries. The Russian economy went on a downfall facing the end of the year with a practically a zero increase. The weakness of the Russian market, as well as the barriers established against Lithuanian goods at the Russian border caused the abrupt slowdown of economic growth in Lithuania in the third quarter of the year. However, the annual results of the Latvian and Lithuanian economies were good, demonstrating the fastest growth in the region: Latvia 4% and Lithuania 3%. Another important event for our economic region was the joining of Latvia

with the eurozone on January 1, 2014. Lithuania is planning to join the eurozone and the OECD on January 1, 2015.

Estonia

In 2013 Estonian economic growth was continually based on domestic demand which was mainly due to the increase in income and consumption of households. The Estonian economy could rely less than expected on exports as during the first half of the year the growth of Estonia's main trade partners was slower than anticipated. Therefore, the Estonian economy was in decline in the first half of 2013 and although the economy recovered by the third quarter of the year the annual growth remained at a modest 1%. Interest rates stayed low and the access to bank loans was good. Nevertheless, the fixed capital formation stopped in 2013, mainly because of there was no need for investment by companies as the existing manufacturing resources were underused. The recovery of export markets should encourage companies to invest more in fixed assets.



1979

The foundation of EKT, a special construction work company. A contraction of a new cable plant is started, completed in 1980.

Year 2013



In September, AS Harju Elekter celebrated its 45th anniversary.



AS Harju Elekter Elektrotehnika, a subsidiary of AS Harju Elekter, won the public procurement announced by the subsidiary of Eesti Energia, OÜ Elektrilevi, for purchasing unit substations. As a result of successful negotiations, a two 3+1+1-year delivery contracts was signed. A total estimated cost of agreements is 17 million euros. Pursuant to the contract, in the following 3 years, Harju Elekter Elektrotehnika will deliver to OÜ Elektrilevi approximately 2000 unit substations with 1 and 2 transformers, which are manufactured in plants. The supplied automated substations are, due to technological developments, becoming an integral part of the “smart grid”, allowing for the remote management of substations and the monitoring of electricity quality. The substations will be installed, and the deliveries are aimed at the Estonian market.



Swiss CE Asset Management, along with its Baltic partners, announced the next nominees for the Corporate Excellence Award in September. AS Harju Elekter, a third year in the row was recognised as the best in Estonia and TOP5 among the Baltic States (3rd in 2013).

It was recognised thanks to its market position, stable customer base, good historic economic results and promotion of the general management of the company.



In the subsidiaries AS Harju Elekter Teletehnika and Satmatic Oy, the process of implementing the Lean 5S/6S principle of increasing productivity was continued in order to attain maximum customer satisfaction and company profitability through the efficient use of resources and a clear understanding of the costs of the company's activities.



In September 10 years had passed since UAB Rifas joined Harju Elekter Group. On September 8, 2003 AS Harju Elekter signed a letter of intent to acquire 51% of shares of a Lithuanian company, UAB Rifas. The annual turnover of Rifas was then 7 million Lithuanian litas (2 million euros) and it employed 61 people. Within those 10 years the turnover of Rifas has increased by 5.8 million euros and the number of its employees is now 78 (31.12.2013).

The share of AS Harju Elekter has also increased accounting now for 63%.



AS Harju Elekter Teletehnika undertook recertification of ISO 9001 and ISO 14001 quality systems and new 3-year certificates were issued. BVC auditors' report of recertification was unqualified.



In third quarter, AS Harju Elekter bought 11 ha of production land on the outskirts of Tallinn, in Allika Industrial Park, with the objective being future industrial real estate development.



In 2013 the companies of the Group introduced their range of products and comprehensive solutions at all together seven specialised fairs in Estonia, Finland and Sweden. In Germany the Group participated in a specialised fair in the composition of the joint Estonian stand put together by Enterprise Estonia.

Business Results

5 years statistical summary

Group	2013	2012	2011	2010	2009
Statement of comprehensive income (million EUR)					
Net sales	48.3	52.8	46.7	40.9	40.4
Operating profit	1.7	2.0	2.0	1.5	1.8
Profit attributable to owners of the Company	5.2	3.5	2.8	2.2	1.2
Statement of financial position at the end of the year (million EUR)					
Total current assets	15.9	16.5	15.4	14.4	12.0
Total fixed assets	55.2	43.1	37.5	40.7	27.5
Total assets	71.1	59.6	52.9	55.1	39.5
Equity attributable to owners of the Company	62.5	48.8	40.3	44.0	30.7
Equity ratio (%)	87.9	81.8	76.2	79.8	77.7
Rates of growth (% , y-o-y)					
Net sales growth	-8.5	13.1	14.2	1.1	-27.4
Operating profit growth	-11.5	-2.7	33.3	-16.1	-43.4
Profit attributable to owners of the Company growth	46.8	26.8	27.6	76.9	-50.1
Assets growth	19.2	12.7	-4.0	39.5	2.7
Equity attributable to owners of the Company growth	28.1	21.1	-8.3	43.1	20.9

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

	2013	2012	2011	2010	2009
Performance indicators (%)					
Operating margin	3.6	3.7	4.3	3.7	4.5
Net margin	10.7	6.8	6.3	5.6	3.4
Return of assets (ROA)	7.9	6.3	5.1	3.2	3.2
Return of equity (ROE)	9.2	7.9	6.6	4.4	4.4
Shares (EUR)					
Average number of shares (1000 pc)	17,400	17,093	16,800	16,800	16,800
Equity per share	3.20	2.61	2.51	2.22	1.67
The closing price	2.70	2.64	2.28	3.02	2.07
EPS	0.30	0.21	0.17	0.13	0.07
P/E	9.00	12.57	13.41	23.39	28.14
Dividend per share	⁽¹⁾ 0.10	0.09	0.07	0.06	0.05
Liquidity ratio					
Current ratio	2.3	1.8	1.8	1.8	1.6
Quick ratio	1.4	1.1	1.0	1.1	0.9
Personnel and remuneration					
Average number of employees	455	452	427	424	452
Number of employees at the end of the period	451	478	457	440	464
Wages and salaries (million euros)	8.6	9.1	7.7	7.0	7.3

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

⁽¹⁾ Management Board's proposal

Business Results

In the 2013 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 of 5.4% 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 2013 the consolidated net sales of the Group decreased by 8.5% compared with the previous year amounting to 48.3 million euros. The operating profit decreased by 11.5% to 1.74 million euros, but net profit increased by 43.6% to 5.17 million euros.

The share of Estonian companies in the total consolidated sales revenues was 47% (2012: 45%), Finnish company contributed 40% (2012: 40%), Lithuanian company 12% (2012: 14%) and Swedish company 1% (2012: 1%).

Sales revenue, net and operating profits

million euros



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 largest part of the consolidated net sales i.e. 83%. Sales of electrical components and services gave 7%, the real estate rent 4.5% and other products and services totalled 5.5% of the sales volume of the Group in 2013.

As for the markets, once again the Group's home markets were dominant in 2013. Export markets lost a bit of their importance and their further development is strongly dependent on the activities of our key accounts in foreign countries. Nevertheless, the

1980

The completion of the acetylene plant and the beginning of production process.

Business Results

changed situation also offers new business opportunities. 63% of Group's products and services were sold outside Estonia (66% in 2012) and 93% (90% in 2012) of sales revenue was received from the Group's companies domestic markets (Estonia, Finland, Lithuania, Sweden).

Estonia and Finland are the largest target markets of the Group and, therefore, the volume of sale of the Group is strongly influenced by the situation in these markets. The Finnish economic situation was quite complicated in 2013: in the beginning of the year the Finnish export sector was in decline. The industrial production in Finland decreased by 4.6% compared with the previous period. The sales by the Group in the Finnish market reduced within a year by 8% amounting to 23.4 million euros. However, during the last months of the year some signs of recovery were observed in the Finnish economy. The sales on the

Estonian market increased within a year by 1% amounting to 17.9 million euros. In 2013 the Finnish and Estonian markets accounted for 85.6% of the consolidated net sales compared with 81.9% in 2012.

The companies of the Group have mainly concluded long-term contracts with customers on their domestic markets. The operation outside domestic markets is mainly project based or order based and, therefore, constantly changing. Due to the significant decrease in investment in infrastructure in Germany, the Group's volume of sale in that market also decreased by 2.1 million euros. This year our onetime projects in Belgium, Malaysia, Belorussia and Switzerland were completed and new projects started in the US. Supplies to Norway and Russia, that have been constant target markets for the Group, have also increased. The total sales of products of the Group outside the European Union was 2.8 million euros i.e. it increased by 5.5% compared with the previous period.

SALES REVENUE



Business Results

The operating costs of the Group decreased during the year by a total of 8.5% amounting to 46.5 million euros. At the same time the net sales decreased by 8.5%. The total increase in operating costs during the accounting period was 17 thousand euros amounting to 6.7 million euros i.e. 13.9% (2012: 12.6%) of the consolidated net sales.

The decrease in production and sales volumes has led to the shrinkage in the number of people employed in the Group. By the end of the accounting period 451 people were employed by the Group which is 27 persons less than a year earlier. Compared with the previous year the average number of employees increased during the year by 3 employees amounting to 455. The labour costs decreased by 4.3% up to 11.4 million euros, accounting for 23.5% (2012: 22.5%) of the consolidated net sales.

During the year the amount of 155 (2012:86) thousand euros of receivables was written down and charged off. The cost of the markdown of reserves was 23 (2012: 38) thousand euros. Depreciation and amortisation during the period amounted to 1.53 (2012: 1.47) million euros

The consolidated gross margin of the accounting year was 8.46 (2012: 8.65) million euros. The gross profit margin improved by 1.1 percentage point compared with the previous accounting period and amounted to 17.5%. During the period of 12 months the operating profit before depreciation decreased by 4.9% amounting to 3.27 million euros, while the operating profit decreased by 11.5% amounting to 1.74 million euros. The return on sales before depreciation was 6.8% (2012: 6.5%) and the net return on sales was 3.6% (2012: 3.7%).

In 2013 the Group earned 0.95 (2012:0.85) million euros of dividend profit. The financial income from the sales of 90 (2012: 15.4) thousand shares amounted 1.68 (2012: 0.18) million euros. As a whole, the Groups financial income increased by 1.61 million euros to 2.65 million euros.

The Group consolidated 1.30 (2012: 1.12) million euros of profit from its affiliated company.

In 2013 the income tax costs amounted to 475 (2012: 482) thousand euros.

The consolidated net profit for 2013 was 5.17 million euros which was 43.6% more than in 2012. The share of the owners of the Parent company of the period's net profit accounted for 5.16 million euros, increasing by 46.8% compared to 2012. EPS was 0.30 (2012: 0.21) euros.

Other Comprehensive Income

The market price of a share of PKC Group Oyj on the Helsinki Stock Exchange increased during the period of 12 months by 8.76 euros and closed at 24.19 euros (2012: by 4 euros to 15.43 euros). During the reporting period 11.69 (2012: 5.54) million euros of profit was earned from the revaluation of financial assets and 1.66 (2012: 0.16) million euros of revaluation profit was earned from the sales of financial assets. As a whole, the revaluation reserve in the owner's equity increased by 10.03 (2012: 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.



1983

Harju Elekter as an independent company introduces of its trade mark and logo.



Financial Position

The amount of the consolidated balance sheet of the Group as of 31 December 2013 was 71.1 million euros, increasing by 11.5 million euros during the year.

In 2013 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 2.32 million euros in fixed assets compared with the 0.84 million euros of the previous year. All in all, the book value of fixed assets increased by 12.0 million euros amounting to 55.2 million euros during the period of 12 months, which was 77.6% (2012: 72.4%) of total assets.

By the end of the year business claims and prepayments amounted to 6.0 million euros, decreasing by 0.7 million euros during the year and inventory amounted to 5.8 million euros, decreasing by 0.6 million euros a year. During 12 months, the trade and other payables decreased 1.6 and total short-term liabilities of the Group by 2.0 million euros, to 6.1 million euros. In 2013 the quick ratio increased by 0.3 points up to the level of 1.4 and the current ratio by 0.5 points up to the level 2.3.

By the end of the year interest-bearing debt obligations amounted to 1.8 million euros, decreasing by 0.6 million euros during the period of 12 months, including the decrease in short-term liabilities by 0.4 (2012:1.2) million euros. During the 12 month period

the total amount of capital rent payments made by the Group amounted to 294 (2012: 282) thousand euros.

The net debt (interest-bearing debt obligations – cash and bank accounts) of the Group has decreased by 1.4 million euros amounting by the end of year to -2.4 million euros. The ratio of net debt to owners' equity was -3.8% (2012: -2.0%).

During the period of one year the owner's equity of the Group increased by 13.7 million euros, amounting to 63.8 million euros by the end of the year.

By the end of the reporting period current assets amounted to 22% (2012: 28%) and non-current assets to 78% (2012:72%), on the other hand, foreign capital accounting for 10% (2012: 16%) and owner's equity for 90% (2012: 84%) of total assets.

In 2013 the net cash from operating activities was 2.5 (2012: 4.6) million euros and from investment 0.5 million euros. Net cash used during the same period in investing activities was 58 thousand euros. The Group paid dividends of 1.6 (2012: 1.2) million euros. The net cash used in financing activities was 2.3 (2012: 2.0) million euros. Cash and cash equivalents increased, during a year, by 0.8 million euros amounting to 4.1 million euros. In the previous years they had decreased by 2.5 million euros amounting to 3.4 million euros.



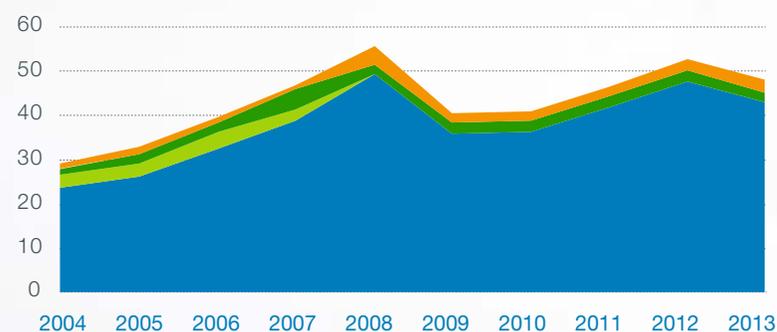
BUSINESS SEGMENTS

As of 31 December 2013 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 five years (including 2013) remained below the essential 10% and, therefore, it was recognised as within the composition of other fields of activities.

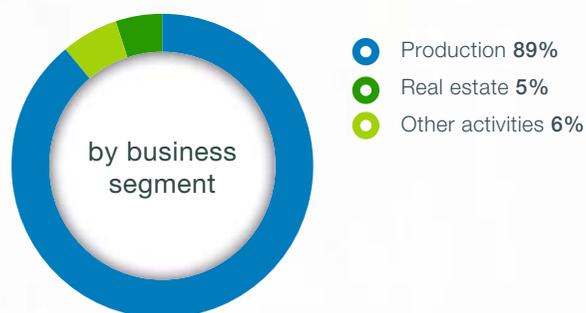
Revenue of business segments

million euros



● Production ● Trade ● Real estate ● Other activities

SALES REVENUE





1988

An independent foreign trade license was issued to Harju Elekter which meant the begging of co-operation with foreign companies.

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 2013 production gave 89% (2012: 90%) of the consolidated sales revenue. The segment's volume of sales decreased within a year by 10.0% amounting to 42.9 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 10,843 m² of production, warehouse and office premises. The average number of employees is 193, incl.40 of them working in sales and R&D.

The year 2013 was very successful for AS Harju Elekter Elektrotehnika. All in all the sales revenue of AS Harju Elekter Elektrotehnika in 2013 was 20.5 (2012: 21.2) million euros which is practically the same as the year before. At the same time, the good

SALES REVENUE



AS Harju Elekter Elektrotehnika sales revenue

million euros



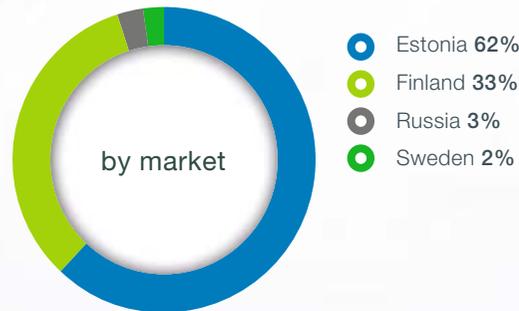
work of engineers and the fabrication personnel of the company resulted with the conclusion of substantial public procurement contracts that will ensure a stable flow of orders for the next 3 to 5 years. The sales on foreign markets, including the European Union customers of the Group accounted for 41% of net sales and amounted to 7.9 million euros. The sales on the domestic market remained stable.

The majority (93.9%) of sale revenues was earned by the sales of various electrical installations (2012: 93.1%). As to the product groups distribution substations still held the leading position followed by MV products and serial products. Prefabricated substations with concrete and metal casings manufactured in the AS Harju Elekter Elektrotehnika plant have gained the leading position on the domestic market which is supported by the stable growth of orders for substations in Finland and increasing sales in the Swedish market. The sales of special substations was growing effectively at the end of the year and thanks to the solution deve-

loped by engineers of the company and the high quality of the product the perspectives are highly promising for that product too. The sales of MV primary and secondary distribution units to domestic and foreign customers met the expectations. The manufacturing of serial products also evolved positively as the number of orders increased and their submission became more regular and stable.

In spring AS Harju Elekter Elektrotehnika participated successfully in the largest power engineering fair in Sweden, Elfack, where the prefabricated substations that were tailor-made according to Scandinavian requirements and needs and cable distribution boxes, Sivacon LV distribution panels and charging and power supply points for electric cars were introduced. Besides that the company's wide product range was introduced at local fairs and special fair days meant for customers. The renewal of the company's homepage making it much more informative should be highlighted among other marketing activities.

SALES REVENUE



In 2013 the company continually focused on optimising important processes in the company and on the efficient use of products. At the same time a lot of attention was paid to optimising supply chains of goods in all stages of production. Shop floor workers as well as managers participated in several occupational and electrical safety courses. In the end of the year a staff qualification system was introduced to better connect the skills and contribution of employees with the fair and motivating salary and show the possibilities for the development and increase of pay. The new qualification system also creates good preconditions for the improvement of productivity.

In order to better understand the expectations and needs of clients the recommendation index monitoring environment was introduced in 2013. This solution offers regular feedback from clients on the quality of the company's main processes. This is a valuable set of information that helps to improve the business processes of the company. The introduction of complementary options of the economic software, MS Dynamics AX, was continued, including the improvement of the registry of electronic purchase invoices and the management reporting environment.

In January 2013 certificates of compliance with the quality and environment standards of ISO 9001 and ISO 14001 were issued to the company for the next three year period. In addition to that several licensors and important customers carried out several audits of production processes of LV/MV distribution units checking thoroughly the compliance of products and technical documents to the established requirements, the production procedures and the quality assurance of products. Audits are informative for both parties and an important cornerstone for future co-operation.

In order to ensure the development and growth of the company active export marketing will be continued in forthcoming years. 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 extending the exciting product range, reinforcing the co-operation between the companies belonging to the Group and continuing the co-operation with higher, specialised and vocational educational institutions.

1992

Establishment of joint ventures:
AS Draka Keila Cables (HE share 41.2%), a producer of low voltage power cables. Today Harju Elekter holds 34% of the company.
AS ABB Harju Elekter (HE share 49%), a power engineering and automatic solutions company. All the shares were sold to ABB in 1995.
AS Glamox HE (HE share 49%), a producer and supplier of lighting products. All the shares were sold to Glamox in 2000.

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 58 people.

In 2013 sales revenues of AS Harju Elekter Teletehnika amounted to 2.9 million euros remaining at the same level as in the previous year. In the first half of the year the planned sales turnover was hindered by the decrease in demand in Finland which is the main export market of the company. In the second half of the year the Finnish market recovered a bit and this was positively reflected in sales figures. At the same time the redistribution process of markets continued within the leaf metal and telecommunication sector of Nordic countries putting strong pressure upon prices and delivery dates.

As the company is involved in international trade the ups-and-downs on international markets have direct or indirect influence on its operation. In 2013 the share of exports in net sales of the

company was 56.3% and Finland was its main foreign market, followed by Germany and Sweden. The sales in foreign markets increased by 3.3%. The increase in sales on foreign markets was mainly due to Finnish telecommunication segment customers who, despite the unstable economic environment, continued to invest in data communication networks. The sales on the domestic market remained stable.

The number of small-scale and short-term orders increased in 2013 complicating the organisation and planning of production. During the accounting year the company developed several new products which are good enough by their nature and quality to compete successfully with leading global trademarks.

AS Harju Elekter Teletehnika sales revenue
million euros



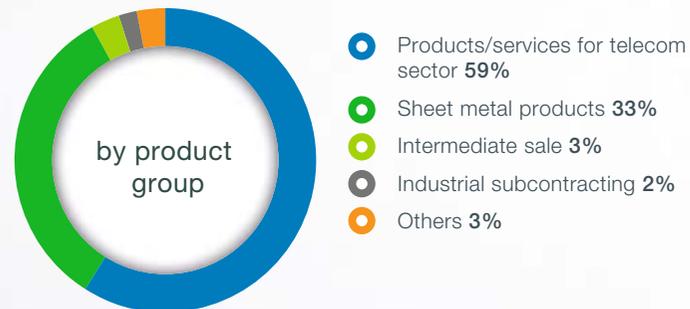
In order to introduce its products the company participated in several professional fairs in the Nordic countries (Elfack) and Germany (Productronica) where new contacts with high potential were established and valuable customer feedback was gathered. As a result of active marketing and sales new attractive customers to start the co-operation were found in Finland and Sweden.

Substantial achievements were made in improving production and planning processes and increasing the productivity. In 2013 the introduction and development of Lean production principles were continued and as a result the security of provision improved, the

production time shortened and the misuse of resources during the production was reduced. Today 5S audits and Lean approach have become an integral part of the production process of the company.

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.

SALES REVENUE



Satmatic OY

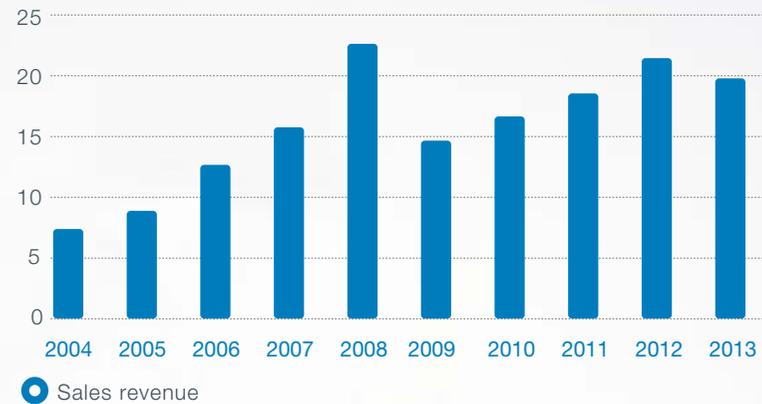
Satmatic Oy, a fully owned subsidiary of AS Harju Elekter, is a leading producer of automation equipment for the industrial sector and of electric power distribution and transfer equipment in Finland. The product range of the company covers the needs of customers from the development of products, programmes and projects to full maintenance service. The range of products is wide and the company aims to offer its customers up to 20kV products and solutions. A substantial part of products and solutions of Satmatic Oy are sold outside Finland either directly or through mediators i.e. Finnish exporters. 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 76 employees.

The unstable economic environment in Europe and the decrease in Finnish exports and technology industry by 10% on average were also reflected in Satmatic Oy net sales in 2013 which were a bit less than in previous year, amounting to 19.7 (2012: 21.3) million euros. The sales outside Finland either directly or through mediators account for 63% of net 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

Satmatic OY sales revenue

million euros



product/solution. However, such orders from customer groups orientated to exports create uncertainty accompanied by the 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.

The activities of the company are based on high quality products, long-term customer relations where great attention is paid to developing first-rate and professional solutions as well as mutually offered added value. As to project products the moderate

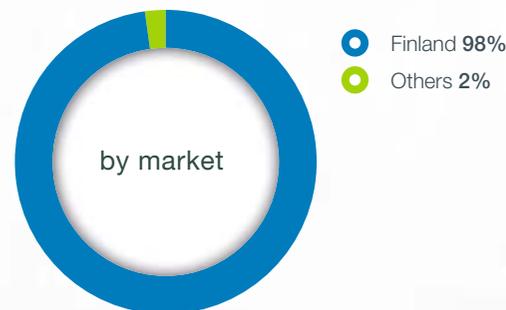
increase continued in 2013 and several automation and control cabinets and installations were handed over to customers. Several electric installations and solutions were developed in the plant for paper, rock wool and steel industries as well as for mines and power stations. Sweden, Russia, Poland, China and USA were the main target countries. The sales increased also in car heating switchboards and the charging stations sector where the products were mainly sold by wholesalers.

In 2013 the company continued to make the organisation of production more efficient by implementing Lean 6S principles. The planning and design software was also further developed by improving skills of employees and introducing additional options to the programme. For years Satmatic Oy has consistently invested in meeting quality requirements and environmental management

standards and every year planned audits are carried out in the company. In 2012 UL Inspection Centre recognised the production procedures of switchboards and final products as suitable for the USA and the rest of the American region and in 2013 the first deliveries were successfully implemented.

In 2014, 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. In order to improve the organisation of the company more attention will be paid to intensifying the work of the development department and organising logistics more efficiently. 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.

SALES REVENUE



1994

Strategic investment into and the continuation of co-operation with, a Finnish stock listed company PKC Group Oyj, a producer of cable harnesses (Harju Elekter's share has decreased from the initial 14% to 5%).



1997

Harju Elekter was listed on the Tallinn Stock Exchange.

During these 15 years on the stock exchange the Group has increased its operating profit and turnover ten times; the company's market value has increased more than three fold and shareholders have been paid a dividend every year.

Business Segments

Rifas Group

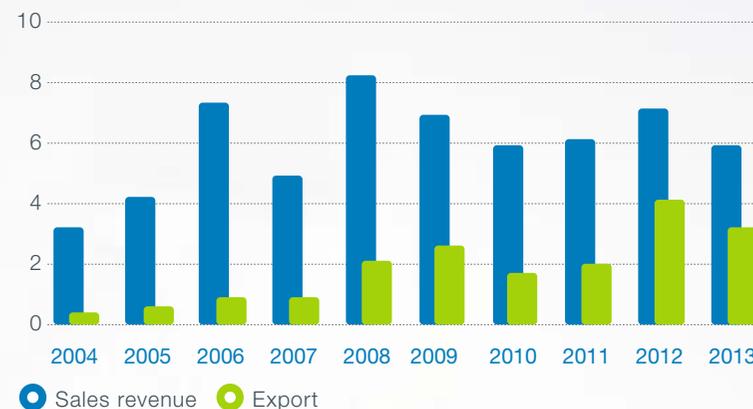
Rifas UAB is AS Harju Elekter's Lithuanian subsidiary, which is located in Panevėžys. AS Harju Elekter owns 62.7% of shares of the company. The main area of activities of the company is the production and marketing of industrial automation equipment and electric power distribution and transfer equipment. 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 78 employees.

In 2013 the sales revenues of Rifas amounted to 5.8 million euros. The decrease in sales revenues was due to the strategic decision to restructure the existing product portfolio of the company according to which the decision was made to withdraw from the general contracting business that had so far accounted for quite a substantial part of the company's sales revenues but entailed high risks, and to focus, for the sake of a sustainable future, on its primary activities: the development, production and sale of MV and LV electric installations. Although the volumes of sale of other product groups increased during the accounting year it was not enough to cover the losses suffered in the business segment given up.

Most of the net sales come from the production and sales of project based products and services and a small part of it from the intermediate sale of electric components. Different frequency converter, electric and control boxes have the largest share in the

Rifas UAB sales revenue

million euros



range of products of the company followed by control systems and panels and energy distribution products.

Since January 1, 2013 Aidas Šetikas has been the chairman of the Management Board of Rifas UAB and several departments have got new managers. With the view to organisational changes the strategy of the company was reviewed and the focal points in the fields of action were specified, and as a result, the main emphasis was put on the efficiency of production processes and the increase in the production capacity mainly in foreign markets. In order to use more effectively the engineer technical resources of the company the decision was made to reduce sales connected to the general contracting project.

During the year the product range of the company was standardised and new standard products and solutions were developed that should ensure a strong basis for increasing the volume of production in forthcoming years. The first module box systems were completed in close co-operation with a major customer. The production of such systems allows the use of standard solutions with project based products.

In 2013 the introduction of the new business and accounting software, ERP, was started and although this is a multiannual project some positive developments in the management of supply change

are already noticeable. At the end of the year the preparations for the introduction of modules of planning the production capacity and project management were started and in 2014 they will be complemented by the introduction of financial and management accounting modules.

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.

SALES REVENUE



1998

The purchase of a producer of telecom sector sheet metal products. Today the subsidiary's name is AS Harju Elekter Teletehnika (HE share 100%).

The foundation of AS Saajos, a producer of fireproof and security doors (HE share 33.3%). All the shares were sold to Saajos Int. in 2007.

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 11.1% (2012: 9.6%) of the consolidated sales revenue, out of which merchandise formed 41.9%, intermediary sale of Group's products (electrical equipment) 11.8%, rental income 40.9% and income from mediation and rendering of services formed 5.4%.

Real Estate Holding

The sales revenues of the segment were 2.4 million euros, increasing by 1.5% comparing to the previous year. Rental income increased by 0.6% amounting to 2.2 million euros, accounting for 90.1% (2012: 91.0%) 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 9.9% (2012: 9.0%) of the sales revenue of the segment.

Other Activities

During the reporting period, the sales revenues of other non-segmented activities increased by 9.1% amounting to 2.92 million euros and forming 6.0% (2012: 5.1%) of the Group's sales revenues. The main revenue sources were the intermediary sale of products and the sale of Group's products (electrical equipment). Revenue from the sales of other services was 49 (2012: 31) thousand euros.

SALES REVENUE



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 9.6% (2012: 8.6%) from the consolidated sales revenues.

Harju Elekter AB

Harju Elekter AB is a representation and sales organisation of the Group founded in 2010 in Sweden. AS Harju Elekter has a share of 90% in the subsidiary. The main activity of the company is the intermediary sale of the Group's products and services. During the three years of its existence Harju Elekter AB has established a well-functioning customer base. Although the volume of sales increased year by year the relatively high costs did not allow the achievement of the desired business outcome.

The company's sales revenue in 2013 was 703,000 euros (2012: 532,000 euros), making up 1.4% and 1.0% of the consolidated sales revenue, respectively. The financial year resulted in a loss of 190 (2012: 140) thousand euros. As at 31.12.2013, Harju Elekter AB's balance sheet total in the Group's assets was 0.25%, making up 184,000 euros (31.12.2012: 342, 000 euros).

On February 27, 2014 the Supervisory Board of AS Harju Elekter decided to suspend indefinitely the operation of the Swedish subsidiary, Harju Elekter AB, starting from April 1, 2014. This decision was made because of the ineffectiveness and costliness of the business model used during the period from 2011 to 2013. After the reorganisation of work in the sales and development teams of AS Harju Elekter Elektrotehnika, they and the Group's partner agents in Sweden will be responsible for the business activities and customers in Sweden.



The production processes of the Group's companies are acknowledged as compliant with international quality and environment management standards ISO 9001 and ISO 14001.

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 100 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.

2013 was 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 4% amounting to 53.8 million euros.

In 2013, AS Harju Elekter consolidated a profit from related company in amount of 1.3 (2012: 1.1) million euros.

In the field of production, all the efficiency indicators of the company improved. The company made investments in the amount

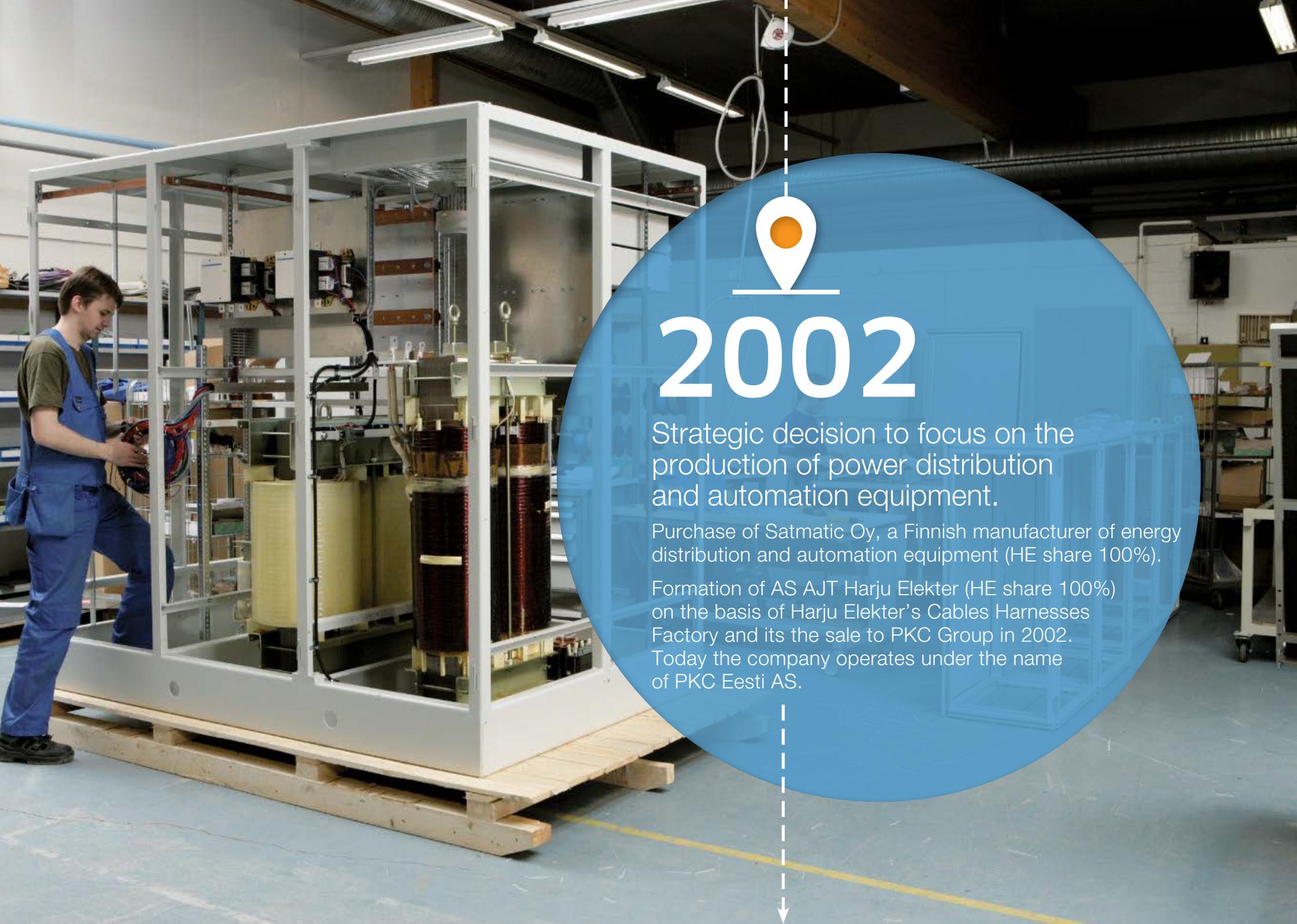
AS Draka Keila Cables sales revenue

million euros



of 100,000 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 2014, 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.



2002

Strategic decision to focus on the production of power distribution and automation equipment.

Purchase of Satmatic Oy, a Finnish manufacturer of energy distribution and automation equipment (HE share 100%).

Formation of AS AJT Harju Elekter (HE share 100%) on the basis of Harju Elekter's Cables Harnesses Factory and its the sale to PKC Group in 2002. Today the company operates under the name of PKC Eesti AS.

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. The total dividends of the company designated for 2012 was 217 thousand lats (308 thousand euros) of which the share of AS Harju Elekter was 43 thousand euros. Dividends were not paid out in 2013. In 2012 the Group earned 23.4 and in 2011 24.6 thousand euros of dividend profit.

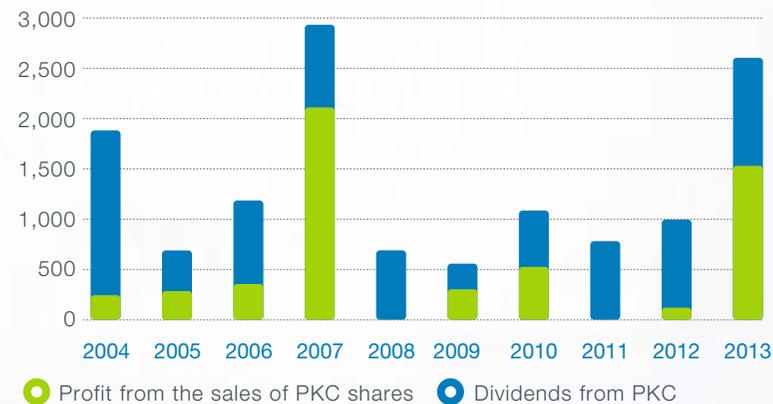
PKC Group Oyj

PKC Group Oyj (hereinafter PKC) is a Finnish publicly traded company, which manufactures cable insulation for the automobile, telecommunication and electronics industries. In 2013, sales revenue of PKC was 884.0 million euros and the Group employees 19 thousand people.

PKC shares are quoted on the Helsinki Stock Exchange. AS Harju Elekter is one of the biggest shareholders of PKC shares with a stake of 5.4% as at December 31, 2013. The market price of the shares decreased in 2013 by 8.76 euros and on the last day of trading the price of a share on the Helsinki Stock Exchange was 24.19 (2012: 15.43) euros. PKC shares are valued in the balance sheet according to market price and the change in the

Profit earned from financial investment

thousand euros



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 10 million euros up to 31.3 million euros.

For the financial year of 2012, PKC paid a dividend of 0.70 euros per share which is a total of 0.95 million euros, compared to 0.60 euros per share in 2011, totalling 0.83 million euros. In 2013, the Group sold 90 (2012: 15.4) thousand PKC shares, the nonrecurring profit for which amounted to 1.68 (2012: 0.18) million euros.

Share of PKC Group Oyj in 2011–2013

euros



2013

Purchase of UAB Rifas, a Lithuanian manufacturer of energy distribution and automation equipment (HE share 51%). In 2012 Harju Elekter increased its share within it to 63%.

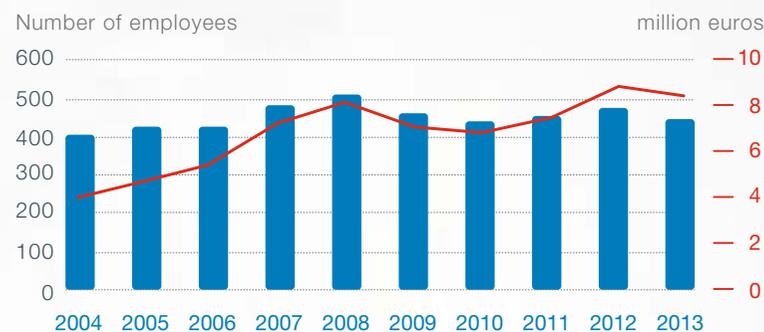
PERSONNEL

Substantial changes took place in the labour market of the region where the Group is operating. Although the unemployment rate has decreased over several successive years, the structural unemployment has remained relatively high. It is difficult to find high quality labour and this is aggravated by the unattractive level of wages in the business sector and the outflow of highly qualified specialists from the country (mainly from Estonia and Lithuania). The shortage of highly qualified labour has again spotlighted the subject of raising wages which was done in most of the companies of the Group during the accounting period.

As at the balance day on 31 December, there were 451 (2012: 478) people working in the Group and the average number of employees was 455 (2012:452). Employee wages and salaries totalled 8.6 (2012: 9.1) million euros in the year 2013. The average wages per employee per month amounted 1,584 (2012: 1,684) euros. It is important to note, that the average wage in Finland and Sweden is a multiple time higher compared to Estonia and Lithuania.

The majority of the Group's employees – 296 people – worked in Estonia, including 45 people who worked in the Parent company. At the end of the year, there were 76 people working in Finland, 78 in Lithuania and 1 in Sweden. From 451 employees working in

Personnel and labour costs



● Number of the employees at the end of the period — Labour cost

the Group 349 of them were men and 102 women, 100 of whom have higher education, 285 people have secondary or vocational secondary education and 66 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-term employees motivates newcomers to preserve and develop this culture. 61.6% of employees have worked in the Group for over five years.

Personnel

The average age of the Group's employees has remained stable, and was 43.8 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 46 Bachelor's or Master's degree students have participated in the scholarship programme and five young engineers are currently employed by the Group. In 2013 Marek Mägi, the electrical engineer of the subsidiary AS Harju Elekter Elektrotehnika defended successfully in the Tallinn University of Technology his doctoral thesis concerning the studies and management of storage devices for electric cars and energy exchange processes in the power distribution networks. This creates a favourable platform and new challenges for the product development department of the subsidiary to continue, in co-operation of the University, the studies in this area.

Harju Elekter Group's Estonian enterprises carry 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/6S-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:

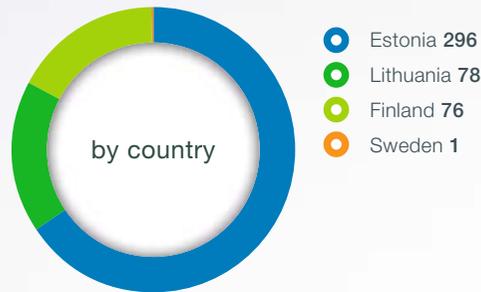
- » a bonus system linked to operating profit. The scheme involves all employees. Bonuses dependent on profit motivate employees to always consider the outcome of their work for the company as a whole;
- » share-option schemes, aiming at involving members of the directing bodies and employees of companies 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.

Personnel

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 collec-

tive 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



2005

AS Harju Elekter Elektrotehnika, a producer of MV/LV power distribution and transfer equipment became an independent 100% subsidiary of the Group.



Investments and DEVELOPMENT

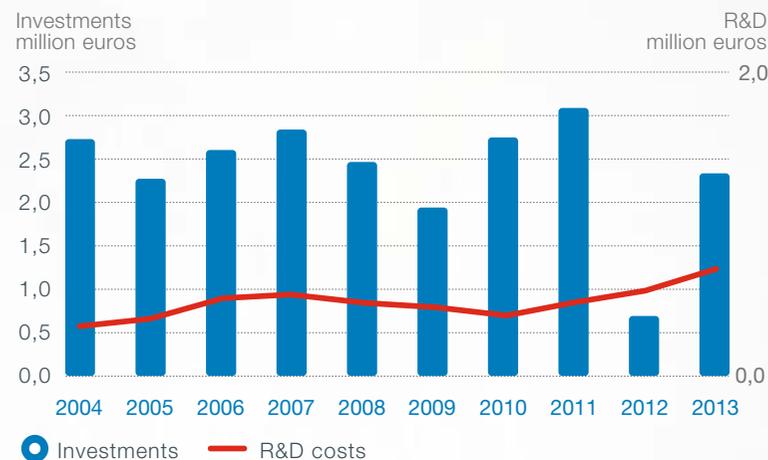
In 2013, the Group investments to real estate, tangible fixed assets and intangible fixed assets totalling 2.3 (2012: 0.7) million euros.

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 MS Dynamic AX 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. One of the achievements in 2013 that is worth highlighting is the introduction of the electronic environment for handling purchasing invoices in the Group's companies located in Estonia. Investments in the development of the economic software made during the accounting year amounted to a total of 84.5 (2012:74.0) thousand euros, while investments in information technology equipment amounted to 73.8 (2012: 18.0) thousand euros.

In the beginning of 2013 the new website of the companies of the Group locating in Estonia was introduced to customers and co-

Investments and development



operation partners. In addition to the new design the content of the website based on free software was also substantially changed meeting now up-to-date requirements for design, browsers and monitoring.

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 (improvement

Investments and Development

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. In 2013, assigned grants were received for marketing actions totalled 19,000 euros.

According to the development principles of the Group, the Group's companies aims at the continuous modernising and development of new products to meet the needs of its customers and to improve production technology. In 2013 the development costs, at cost price, of the Group amounted to a total of 0.68 (2012: 0.56) million euros, accounting for 1.3% 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 2013 was diverse and interesting for the Estonian product development team. In 2013 the Development Centre was opened in Keila Industrial Park which pools the engineers from product development and technical departments and sales engineers of AS Harju Elekter Elektrotehnika. 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, building and testing of new prototypes and for introducing new product samples.

During the period from 2012 to 2013 a substantial part of the product development resources of the Keila Development Centre was used to develop new types of substations to participate in the tender for the state procurement published by the Estonian network operator, Elektrilevi. The participation in the tender was successful and in the summer two large-scale framework contracts for the validity period of 3+1+1 years were signed. According to these contracts AS Harju Elekter Elektrotehnika will within the period of three years provide OÜ Elektrilevi with approximately 2,000 prefabricates 1 and 2 transformer substations. The estimated total value of these contracts is 17 million euros. Thanks to the rapid development of technology the delivered automated substations are about to become an integral part of the so called "smart grid" making it possible to administer substations and monitor the quality of power from a distance. The self-mending system used in the substations allows a reduction in the scope and duration of blackouts caused by failures, checks the state of the network in real time and is capable of preventing possible failures in the future. These substations are meant for the Estonian market.

Although the range of basic products in the product portfolio of the company is sufficient AS Harju Elekter Elektrotehnika developed special solutions for several standard products. The professional skills of engineers working in the Development Centre are



2006

A sales organisation of power distribution and transfer equipment, SIA Energokomplekss (HE share 10%), was founded in Latvia. Today the Group owns 14% of the company.

Investments and Development

adequate for such solutions while flexibility and a customer orientated approach adds value to the whole sales procedure. In addition to the development of product solutions meant for the home market several models of substations were developed for foreign markets. The work with new projects related to power-supply substations for container cranes continued (for Estonia, USA and Australia). Driven by the market demand new generation control/distribution switchboard, HEK4, was developed and several LV control and distribution panel Sivacon S8 projects were completed. In co-operation between the Estonian companies of the Group several models of AC/DC switchboards for international customers were developed and the required tests carried out. The production of car pre-heating panels that were manufactured in the Finnish subsidiary was transferred to Keila plant. The list of achievements is long but it is important to mention the design and manufacturing of the Tallinn charging switchboard for Formula Student Team and the successful doctoral thesis of the electrical engineer of the subsidiary AS Harju Elekter Elektrotehnika, Marek Mägi, concerning the studies and management of storage devices for electric cars and energy exchange processes in the power distribution networks defended in the Tallinn University of Technology created a firm basis for further product development in this area.

As to the technology the Estonian companies of the Group contributed in the development of manufacturing technology of copper conductors, a new CNC-controlled copper bar punching machine was introduced and the process of designing copper components and its integration with production software was modernised. The centre of test devices was complemented with modern equipment for measuring and testing parameters of low voltage and high voltage devices. Preparations were made for acquiring a new ben-

ding centre and the whole production procedure of copper details was reviewed.

Subsidiaries in Finland and Lithuania focused on development projects related to renewable energy and offering suitable solutions related to them. Satmatic Oy increased its sales of solar power equipment and services. The development of heating switchboards for car parks and charging systems for electric cars continued and resulted with the solution for a remote control system for heating boards for car parks. A 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 number of solar panels on the roofs of production buildings of the Group was increased in 2013 and by the end of the accounting year the total capacity of its solar power stations amounted to 110 kW.

The companies of the Harju Elekter Group participated in different specialised fairs where the product range related to electric power distribution networks, as well as renewable energy products were introduced. In January the Group participated in the largest Finnish power (distribution) networks fair, Sähköverkot, in Tampere, in February in the electric engineering fairs, Sähkö, Tele, Valo and AV in Jyväskylä and in May in the largest power engineering fair in Nordic countries, Elfack, where the prefabricated substations that were tailor-made to meet the local market requirements and needs and cable distribution boxes, substation solutions suitable for 1kV transmission network, data communication boxes and charging and power supply points for electric cars were introduced. In addition to that the Group participated in the composition of the joint Estonian stand in the electronics fair, Productronica, in Munich and in smaller-scale regional fairs.

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 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

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Harju Elekter Elektrotehnika	ISO 9001, ISO 14001 <small>(since 2000)</small>				○						up to 1/2016
Harju Elekter Teletehnika	ISO 9001, ISO 14001 <small>(since 2002)</small>		○			○			up to 1/2014		
Rifas	ISO 9001			○			○		ISO14001 OHSAS18001	up to 12/2015	
Satmatic	ISO 9001			○			○		ISO14001	up to 10/2015	
Draka Keila Cables	ISO 9001, ISO 14001 <small>(since 2000)</small>			○			○			up to 3/2015	

○ – recertification

Quality Management and Environmental Policy

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.

Following the principles of quality management and environmental policy the subsidiaries of the Group continually focused on optimising important work processes and on the efficient use of materials and products 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. In addition to that several occupational and electrical safety trainings were organised for workers. The productivity was continually increased in Estonian and Finnish subsidiaries by further elaborating 5S and 6S production principles.

During the accounting year several audits of key accounts, product certification companies and vendors of licensed products were successfully carried out in subsidiaries of the Group. In Estonian companies the introduction of complementary options of the business software, MS Dynamics AX, was continued.

According to the requirements of quality standards ISO 9001 and ISO 14001 internal and external audits are carried out in the Group's companies at least once a year and after every three years the recertification is carried out. In January 2013 a new certificate for the next three year period was issued to AS Harju Elekter Elektrotehnika and in January 2014 to AS Harju Elekter Teletehnika. This was preceded by comprehensive audits which were passed flawlessly by the companies. Regular annual audits were carried out in other subsidiaries. The next recertification will be carried out in 2015. 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.



Corporate TARGET for 2014

The preparation of Group's action plans and the organisation of business activities of companies belonging to the Group are built on the Group's long-term development strategy according to which short-term as well as long-term decisions are made on the assumption of the Group's aim to be the well-known and accepted manufacturer of electrical equipment and automation solutions in the Baltic Sea region which manufactures and delivers a highly professional range of products and comprehensive solutions in the segment of MV and LV products while using advanced technology and implementing the best know-how. In addition to the flawless servicing of our current customers 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 2014 the companies of the Group will focus on the following:

- » finding new projects, customers and co-operation partners in Scandinavian countries
- » preferential development of own products meant for end customers
- » the development of the range of products and services to offer a comprehensive service, starting with the development and production of the product and ending with the provision of guarantees and maintenance services
- » continuous expansion from product centred sales to the area of developing software programmes for controlling technological processes and power supply in order to offer clients comprehensive solutions which include electrical equipment, as well as programmes for their control
- » developing solutions based on renewable energy that offer energy efficient, individualised metering and monitoring possibilities.
- » construction and implementation of new solar power stations and, by that, save a substantial amount of costs in the companies of the Group
- » increasing resources and flexibility by intensifying the co-operation between the companies of the Group
- » optimising costs and making the operation of the organisation more efficient
- » constant increase in the know-how available in the Group
- » increasing the productivity in the plants of the subsidiaries by following Lean principles on cost-effective production
- » active development of industrial real estate projects, including Allika Industrial Park

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 17.4 million ordinary shares. The symbol of an 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.

The year 2013 was a year when world's stock exchanges made new records. US and German shares reached higher levels than ever and the London Stock Exchange was just a step away from a new record. Although the euphoria caused by money prin-

ting and low interest rates did not influence the Tallinn Stock Exchange last year it was still relatively good for our little home market. By December 31 the OMXT index reflecting the state of the local stock exchange amounted to 817.72 points increasing, within a year, by 11.4%. In the middle of November the OMXT index reached even as high as 855 points which is the highest level during the last 6 years. In 2013 the stock exchange volume amounted to 187.6 million euros which is one third more than in 2012 and equal to that of the turnover of 2011. At the same time the number of stock exchange transactions (50,484) was less than in the previous year.

According to the news agency, Bloomberg, the Tallinn Stock Exchange was 44th among the world's 94 stock exchanges observed in 2013 i.e. it located in the first half of the list. Although, a year earlier the Tallinn Stock Exchange with its 38.2% increase had been among the strongest stock exchanges in the world the last year's result can be still considered good. Although, in 2013, the stock exchange index OMXT increased a bit less than expected, specialists are satisfied with more than 10% increase and the recovery of trade. The general index of European stock exchanges increased within a year by exactly the same percentage i.e. 11.4%. Our neighbour, Latvia, saw an increase that was just 0.5% more than that, while the Finnish Stock Exchange increased 33% despite the fact that Finland suffered from economic downturn.

Key Share Data

EUR	2013	2012	2011	2010	2009
Number of shares (in thousand)	17,400,000	17,093,443	16,800,000	16,800,000	16,800,000
Nominal value	0.70	0.70	0.70	0.64	0.64
Closing price	2.70	2.64	2.28	3.02	2.05
Market value (in million)	46.98	45.94	38.30	50.74	34.78
Earnings per share, EPS	0.30	0.21	0.17	0.13	0.07
P/E	9.50	12.57	13.41	23.39	28.14
Dividend per share	*0.10	0.09	0.07	0.06	0.05
Dividend yield (%)	3.7	3.4	3.1	2.0	2.5
Dividend payout ratio (%)	33.7	44.5	42.4	46.5	69.9

*Proposal of the Management Board

The share price of AS Harju Elekter increased in 2013 by 2.3% amounting to 2.70 euros and, as of December 31, the market value of the Group was 47.0 million euros. The total amount of transactions was moderate but the number of shares traded increased – 936 thousand shares were involved in transactions. The list of shareholders stayed stable. At the end of 2013, AS Harju Elekter had 1,500 shareholders.

EUR	2013	2012	2011	2010	2009
Highest price	2.92	2.80	3.54	3.14	2.99
Lowest price	2.46	2.30	2.19	2.02	0.67
Closing price	2.70	2.64	2.28	3.02	2.07
Change (%)	2.3	15.8	-23.8	45.9	107.0
Traded shares (pc)	936,162	759,869	663,917	2,039,910	1,559,830
Turnover (in million)	2.48	1.88	1.88	5.40	2.14

Share and Shareholders

Share of AS Harju Elekter in Tallinn Stock Exchange 2011–2013



A comparison of AS Harju Elekter share indexes 2011–2013

for more information: <http://www.nasdaqomxbaltic.com/market/>

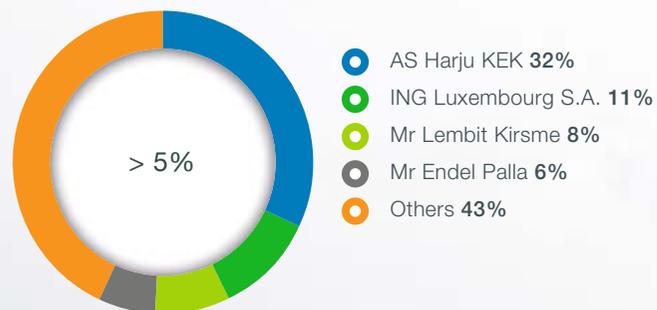
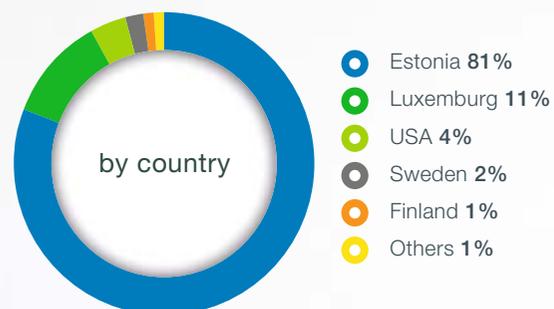


Shareholders Structure

At the end of 2013, AS Harju Elekter had 1,500 shareholders. The number of shareholders decreased during the year by 7 persons. The largest shareholder of AS Harju Elekter is AS Harju KEK, a company based on local capital which as at December 31, 2013 held 32.0% of AS Harju Elekter share capital. Members of the

supervisory and management board and persons or companies associated with them hold 8.46% of the shares. The comprehensive list of shareholders is available at the website of the Estonian Central Register of Securities (www.e-register.ee).

Shareholders as at 31.12.2013



Shareholder structure by size of holding

Holding	No of shareholders	% of all shareholders	% of votes held
> 10%	2	0.13	42.92
1,0 - 10,0%	8	0.53	27.18
0,1 - 1,0 %	57	3.80	15.56
< 0,1%	1,433	95.54	14.34
Total	1,500	100.0	100.0

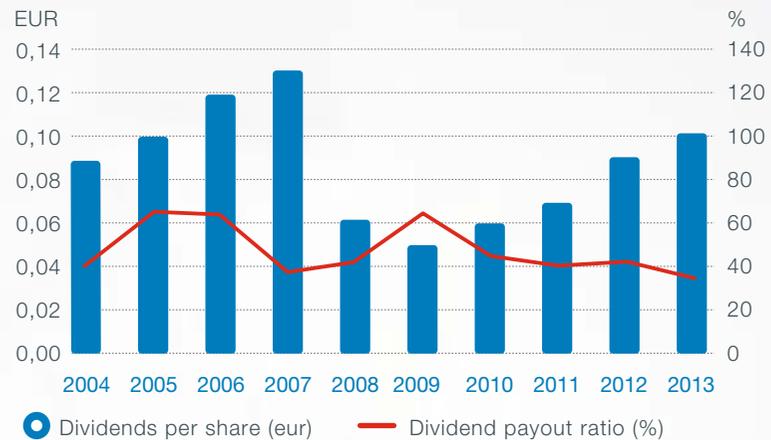


Dividends

According to the dividend policy of the Group one third of the financial year's net profit is paid out as dividends. 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 0.1 euros per share, totally 1.74 (2012: 1.57) million euros for the financial year 2013. This is 33.7% (2012: 44.5%) from total net profit.

Dividends history



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



2010

A common production management and accounting software programme MS Dynamics AX was introduced in Estonian companies.

A Group's sales representative, Harju Elekter AB (HE share 90%), was founded in Sweden.

Social Responsibility and CHARITY

Social Responsibility Report 2013

The environment around us creates, as well as limits, our opportunities to act. During its almost half-century history of operation AS 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

AS 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. AS 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.

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 2013 amounted to 13.7 (2012: 19.8) thousand euros.



2011

Swiss CE Asset Management, along with its Baltic partners, announced the nominees for the Corporate Excellence Award. AS Harju Elekter was recognised as the best in Estonia and fourth among the Baltic States.

Krediidiinfo AS awarded to AS Harju Elekter the credit rating AA and Group's Finnish subsidiary got the certificate "Suomen Vahvimmat 2007– 2011" by the client register of Suomen Asiakastiedon.

Solar energy solutions were taken into use in Estonian, Finnish and Lithuanian companies of the Group. Today the total capacity of solar power stations of the Group's companies amounts to 110 kW.



Corporate GOVERNANCE

Corporate Governance Report 2013

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 2013, 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 2013 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 2013, 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, all of the members have attended most or all 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.

Corporate Governance

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 2013 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.



2012

The Harju county governor awarded AS Harju Elekter with the title “Company of the year”.

Harju Elekter opened in the Keila Industrial Park the Development Centre, an incubator that provides sales units with innovative products and solutions and offers technical support to production. The Development Centre includes a laboratory for the development of new prototypes and introducing samples.



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 2013 was held on 9 May at Keskväljak 12 in Keila, Estonia. A total of 71.94% of the voting stock

were represented. The general meeting approved the 2012 annual report and profit distribution. 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 2013, the supervisory board met six 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 mem-

bership: 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 AS 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 AS Harju Elekter (holding 32.0% of the shares of the company on 31.12.2013). 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 2013, the members of the Supervisory Board owned in accordance with their direct and indirect ownerships totally 7.3% (2012: 6.8%) of AS 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, 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 5 May 2011, and appointed Andres Allikmäe, the former Chairman of the Management Board, as its Chairman. 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 2013, the members of the Management Board owned in accordance with their direct and indirect ownerships totally 1.2% 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.

Additional Management Bodies and Special Committees

The necessary procedures are regulated by rules and the need for additional management bodies has not occurred. 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 AS 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, KPMG Oy in Finland and Allians Revision & Redovisning AB in Sweden.



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:**
Ch of the Supervisory Board: AS Harju
Elekter Teletehnika, AS Harju Elekter
Elektrotehnika.
Member of the Supervisory Board:
AS Draka Keila Cables, AS KVM,
AS Harju KEK, AS Laagri Vara.
Ch of the Management Board:
Satmatic Oy.
Member of the Management Board:
Rifas UAB.

Social activities:
2010– Estonian Chamber of Commerce
and Industry, member of the Supervisory
Board
1995– Tallinn Directors Club, since 2011
member of the board

Endel Palla owns
1,100,000 of Harju Elekter shares.
He has direct participation 6.32%
and indirect participation 0.35%.

AIN KABAL (10.06.1962)
Member of the Supervisory Board



Education:
University of Tartu,
lawyer

Career:
1985–1989 Forensic Science
Laboratory, senior expert
1990–1992 EKE International,
lawyer/vice manager
1993–2001 BCLO Law Offices,
manager
2001–2003 Sorainen Law Offices,
legal advisor
2004–2006 Hansa Law Offices OÜ,
partner
2011– Viru Keemia Group AS,
head of legal dept

**Participation in the management
bodies of business organisations:**
Manager: Kabal & Partners OÜ,
Investkonsult OÜ.
Ch of the Supervisory Board:
Lincona Konsult AS.

Ain Kabal owns
10 Harju Elekter shares.
He has direct participation in share
capital 0.00%. He doesn't have
indirect holdings.

TRIINU TOMBAK (7.01.1971)
Member of the Supervisory Board



Education:
Tallinn University of Technology (TUT),
economics

Career:
1993–1998 Estonian Investment Bank,
Optiva Bank. Loan dept., analyst
(1993–1996). Investment dept., senior
project manager (1996–1998).
2001–2009 World Bank. Publishing
dept., consultant (2001–2005), sales
manager of online databases and
e-Library (2006–2009).

Social activities:
2013– Praxis Center for Policy Studies,
member of the Supervisory Board

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:**
Ch of the Supervisory Board: Põlva
Koit OÜ, AS KVM, AS Entek.
Member of the Supervisory Board:
EKE Invest AS and its subsidiaries,
Avraal AS.
Member of the Management Board:
Laagri Vara AS.

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

Career:
1992–1999 Estonian Bank,
Estonian Investment Bank, Optiva
Bank and Sampo Bank Estonia,
head of investment dept.
1999– OÜ Tradematic, manager

**Participation in the management
bodies of business organisations:**
Member of the Supervisory Board:
AS Tallinna Olümpiapurjespordikeskus.
Member of the Management Board:
OÜ Tradematic, OÜ Norber Grupp,
Beebimaailm Grupp OÜ, OÜ M50,
Hermes Worldwide OÜ.

Andres Toome owns
10,000 Harju Elekter shares.
He has direct participation 0.06%
and indirect participation 0.34%.

ANDRES ALLIKMÄE (07.02.1957)
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:**
Member of the Supervisory Board:
AS Harju Elekter Elektrotehnika, AS Harju
Elekter Teletehnika, AS Draka Keila Cables.
Member of the Management Board:
Rifas UAB, Satmatic OY, Harju Elekter AB.

Social activities:
2007– Estonian Association of Electrical
Enterprises (EAEE), Vice president of the
Management Board
2010– Tallinn Industrial Education Centre,
member of the Supervisory Board

Andres Allikmäe owns
200 000 of Harju Elekter shares.
He has direct participation 1.15%.
He doesn't have indirect holdings.



Successful companies founded by Harju Elekter during the 45 years of its operation offer jobs top a total of 2,500 people and the total sales revenue of all its companies' amounts to 400 million euros.

Please find the year 2013 audited annual report of AS Harju Elekter here
http://www.harjuelekter.ee/sites/default/files/public/pdfid/HE_annualreport2013_eng.pdf

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