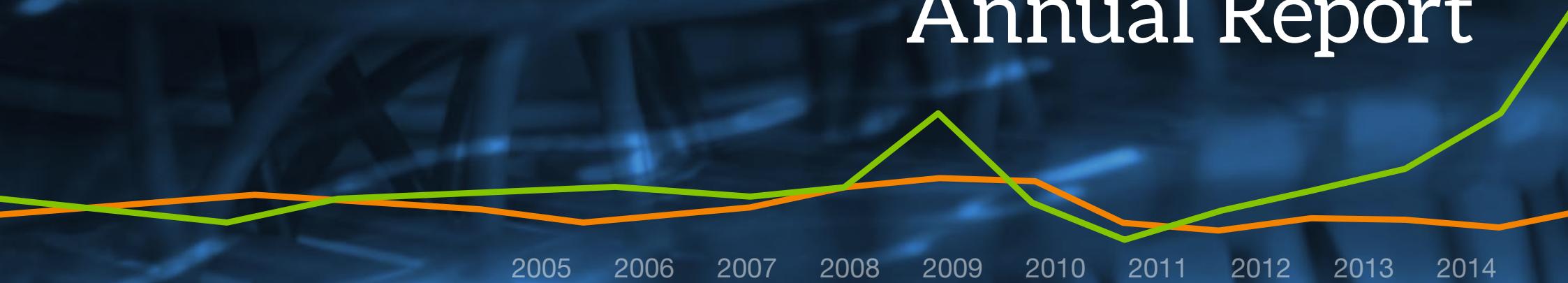


2014

Annual Report



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I NFORMATION TO THE SHAREHOLDERS

Annual General Meeting

The AGM of shareholders of Harju Elekter will take place on May 14 2015, 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 € 0.15 per share for the financial year 2014. The list of shareholders who are entitled to dividends will be closed on May 28, 2014 at 11.59 p.m. The dividends will be transferred to the bank accounts of shareholders on June 3, 2015.



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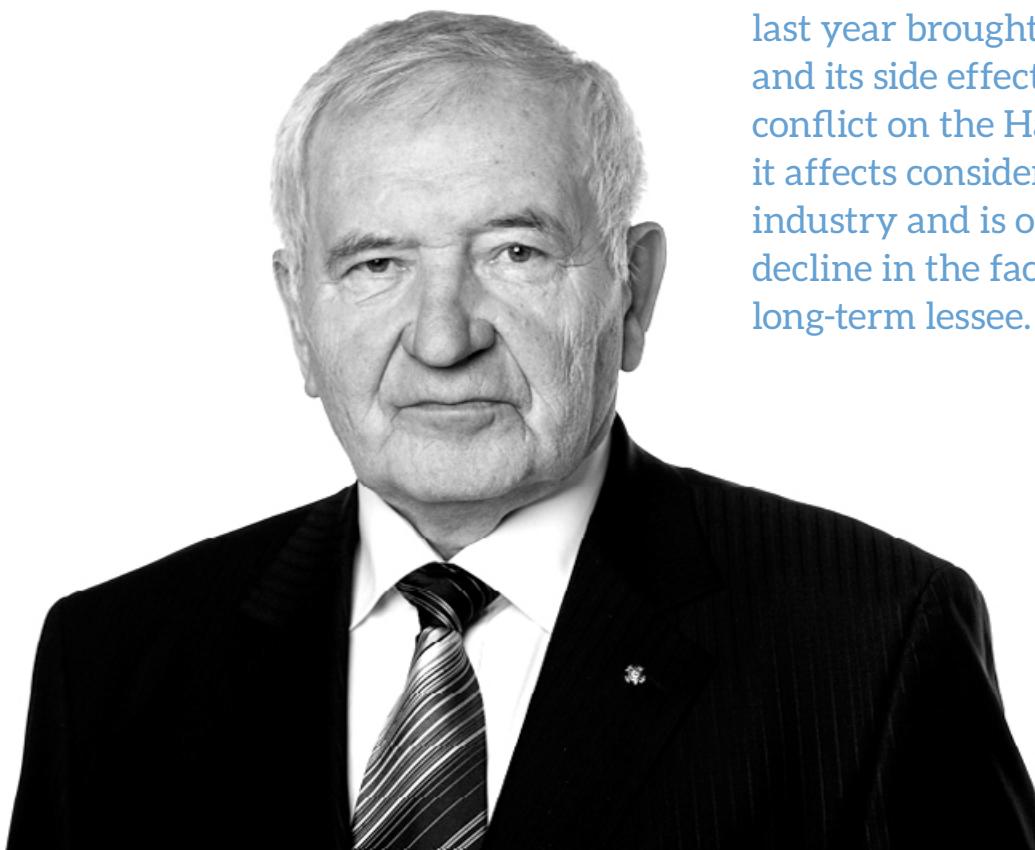
The Publication of Financial Reports in 2015

Harju Elekter informs you that in the year 2015, the consolidated financial results of AS Harju Elekter will be published as follows:

2015	1Q results	29.04.2015
2015	2Q results	05.08.2015
2015	3Q results	04.11.2015

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>. For announcements by email, please sign on company's homepage.

R ight decisions and prompt reaction to changes



Endel Palla
Chairman of the
Supervisory Board

The 46th year of operation of AS Harju Elekter was active and eventful, with the positive greatly outweighing the negative. The less pleasant side the last year brought along the Russian-Ukrainian conflict and its side effects. Although the consequences of the conflict on the Harju Elekter Group are not extensive, it affects considerably the European automobile industry and is one of the reasons for production decline in the factories of PKC Eesti, the Group's largest long-term lessee.

Almost 5% of the consolidated sales revenue of AS Harju Elekter is earned from management and renting out of industrial real estate, therefore the closing of the PKC Eesti's factory in Haapsalu was equally problematic for both, the Group and the town of Haapsalu. The downturn in construction activities in Estonia also continued, decreasing the orders for the Group's construction-related products, including the public procurement of substations by Eesti Energia Jaotusvõrk.

The Group's Supervisory Board and management were able to react promptly to the changes in the external environment and take action and decisions to compensate for the decline in the Estonian market through increasing sales outside the country, in the adjacent markets of Sweden and Finland. The decision made in June to purchase Finnkumu Oy, the largest Finnish producer of prefabricated substations, made the Group the number one seller of substations in Finland and also raised considerably the sales revenue. At the end of the year, the newly acquired Finnkumu Oy was declared the best enterprise in Finland.

In July we decided to sell to the core investor our long-term 34% holding in the associated company AS Draka Keila Cables, on the one hand in order to ensure the continuance and development of cable production in Estonia and on the other hand to secure available funds to finance the purchase of Finnkumu Oy.

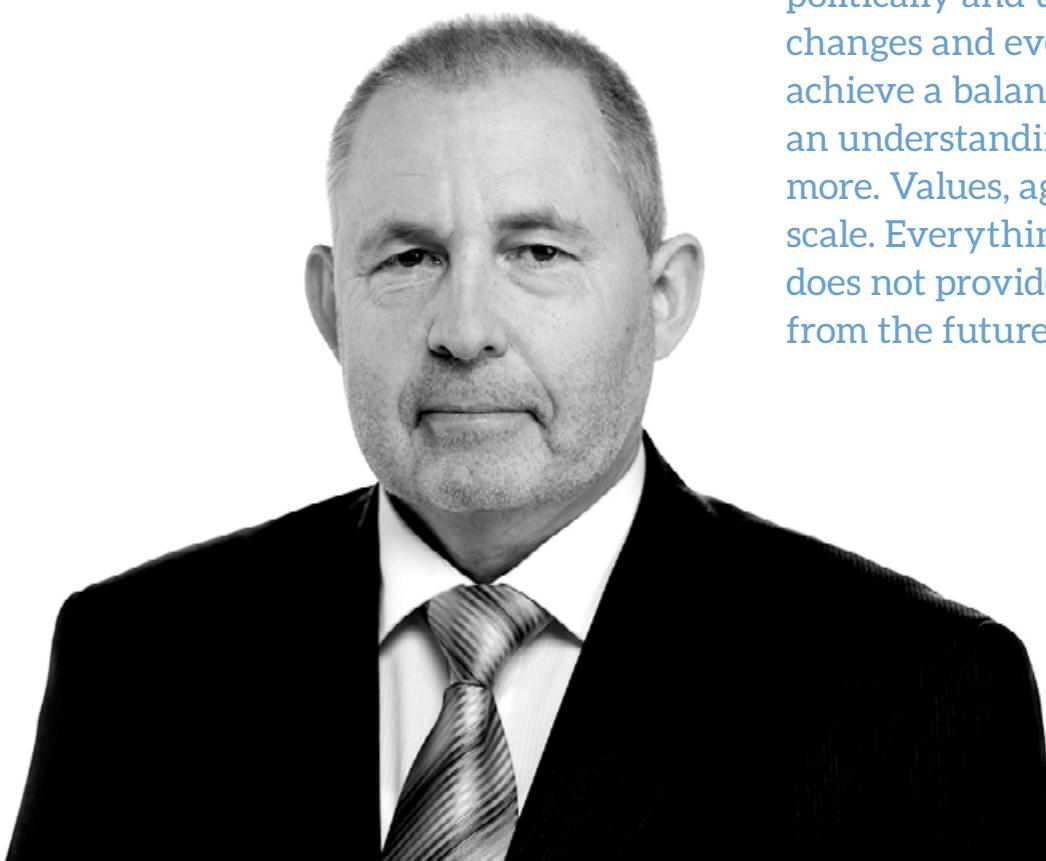
The shares of AS Harju Elekter have been listed on the Tallinn Stock Exchange since 1997. Even though the year 2014 saw some turmoil on the world stock markets and the Tallinn Stock Exchange dropped 8%, the company's share was one of the few that managed to increase its price (by 3.3%). The closing price of the share was 2.79 euros. 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 dividends to its shareholders the entire time it has been listed on the stock exchange and the continually high number of shareholders shows that the trustworthiness and the solid dividend policy of the company is greatly valued.

On behalf of the Supervisory Board I would like to thank all our customers, partners, shareholders and employees. We wish to remain a responsible employer, a committed partner to our customers and a stable payer of dividends to our shareholders.



Endel Palla
Chairman of the Supervisory Board

H arju Elekter Group, on its way to the future



Andres Allikmäe
Managing Director/CEO

Recently we have witnessed a number of historically, politically and undoubtedly also economically crucial changes and events. The view that we are about to achieve a balance in the world has been replaced by an understanding that nothing is for granted any more. Values, agreements or security now lack a clear scale. Everything that has happened and is happening does not provide us any certainty of what to expect from the future.

The Harju Elekter Group has based its business activities of all of its companies and in following the wishes and expectations of its customers and partners on a firm ground, which has allowed us to end the eventful year 2014 beyond the expectations. The last financial year is mainly characterised by steps taken to set the stage for future development. One of Finland's largest manufacturers of prefabricated substations, Finnkumu Oy, joined the Group; the sale of our shareholding in the associated company Draka Keila Cables gave us a strategic option to continue and increase cable production in the Keila Industrial Park; the development of the first real estate project was started at the Allika Industrial Park acquired during the financial year. At the same time we actively reorganised our business activities related to Sweden and paid intense attention to marketing. The activities of the Harju Elekter Group were noticed and valued, as demonstrated by the special acknowledgements and awards both to the subsidiaries as well as the Group as a whole.

Regardless of complications on markets and fierce competition we were able to increase the Group's sales volume by 5%, bringing it to the third best result throughout the history of the company – 50.6 million euros. Sales outside Estonia grew to a record 70% of sales revenue. Operating profit increased 28%, reaching 2.2 million euros, and extraordinary financial income contributed to a remarkable 89% growth in our net profit, to 9.8 million euros. Throughout the entire financial year the Group was very well financed. Investors and shareholders should be well satisfied with our solid balance sheet. However, today we have to admit that in spite of the outstanding economic performance the share price and market capitalisation of AS Harju Elekter remains some tens of percent below the equity figures as a result of passive trading on NASDAQ Tallinn.

The Group's sales are geographically rather diverse. Its companies' economic activities have advanced most in the Finnish segment, which as a result of local sales as well as the Group's companies' sales to Finland grew by 26%, achieving a 58% share in the Group's sales volumes.

The strength of the Harju Elekter Group has always been conducting business in a sustainable and forward-looking way, recognising our responsibility towards society. We consistently support the engineering education at the Tallinn University of Technology as well as electricity related cooperation and security aspects within the professional association EETEL. Youth sports and recreational activities at the company's locations are also not forgotten. We strive to be advisers and opinion leaders in the world we are in interaction. AS Harju Elekter cares about improving people's welfare, but also about more general decisions concerning the choices and security of society.

To round up the successful financial year I would like to thank our customers for their trust, all the Group's employees for their hard work and our shareholders for their support and advice.



Andres Allikmäe
Managing Director/CEO



ORGANISATION

Harju Elekter

Subsidiaries



AS HARJU ELEKTER ELEKTROTEHNika

100%

Manufacturer of electrical equipment for energy distribution, industrial and construction sectors, located in Keila



AS HARJU ELEKTER TELETEHNika

100%

Manufacturer of telecom and fibre optic products, located in Keila



SATMATIC OY

100%

Manufacturer of industrial control and automation devices, located in Ulvila and in Kerava



RIFAS UAB

63%

Manufacturer of automatic equipment and distribution units, located in Panevezys



HARJU ELEKTER AB

90%

/ Suspended for an unspecified term since 1.4.2014 / Sales office in Stockholm

Strategical Investments



14%

SIA ENERGOKOMPLEKSS

MV/LV equipment sales organisation in Riga



PKC GROUP Oyj

Manufacturer of wiring systems

5%

Finnkumu Oy

100%

Finnish leading prefabricated substation manufacturer in Kurikka

Automatikos Iranga

51%

A company which deals with design in Panevezys

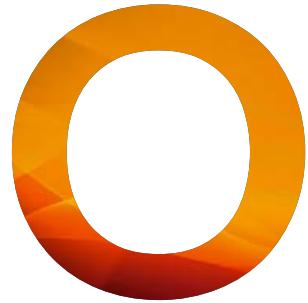
AS Harju Elekter has been manufacturing electrical equipment since 1968. The Group's main income comes from energy distribution equipment (substations, cable distribution and fuse boxes) and automatic control boards for the energy sector, industry and infrastructure. 70% of the products are marketed 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

According to the World Bank the global economy grew by 2.6% in 2014; this year's growth is expected to be 3.0%. The whole year was strongly affected and made unstable by the Russian-Ukrainian conflict, along with the sanctions imposed, which in turn were the indirect cause of exchange rate fluctuations. The exchange rate of the euro against the dollar and that of the rouble against the euro and the dollar both fell considerably. Besides that, the most important event influencing the global economy was undoubtedly the decrease in oil prices from the peak price of USD 115 per barrel in June to around USD 60 per barrel by the end of the year. At the same time, the low raw material prices enabled the US economy to recover and the weakening of the euro had an additional positive influence on the economy and export competitiveness of the Eurozone. From among the countries of the world, economic growth was fastest (7.4%) in China. The world's largest energy exporter Russia faced its first economic recession since 2009, mainly due to the decline in production and investment at a time when there were already problems with the rouble. Inflation remained low, reaching its lowest level in several decades.

Euro-area

Contrary to expectations, 2014 did not bring about a revival in the economy of the Eurozone. Partially because of the Ukrainian crisis and the sanctions war with Russia, although the introduction of negative interest rates for commercial banks by the European Central Bank was not able to boost the economy as intended either. Industries were not producing, domestic consumption remained low and foreign markets had been lost (e.g. Russia as regards agricultural products and consumer goods or China as regards industrial equipment and machine-tools). Private sector continued to pursue savings, which suppressed both growth and inflation. On top of that there were several local issues, such as the calling of extraordinary elections in Greece, economic stagnation in Italy or the dangerously high burden of debt in France. The situation was also not good for the European growth engine Germany, whose economy has come to a halt, or for Estonia's closest neighbours. The economic situation of Estonia's main trading partners did not improve with the year, rather the opposite. The sanctions were a hard hit for Finland who has not been able to break out of the recession and whose economic growth barely made it into the positive. Sweden's economic growth did not meet expectations either, but it was significantly faster than that of

Finland and analysts anticipate it to continue. There are, however, some positive signs – the weakening of the euro strengthens the export competitiveness of the entire Eurozone, lower prices of oil and mineral resources stimulate consumption (Estonia and the EU are both net importers), interest rates and inflation remain at extremely low levels.

Estonia and Baltic countries

The drivers of economic growth in the Baltic States have been broadly the same: domestic demand, support from the EU, increased productivity of the workforce and foreign trade. The slightly faster growth of Lithuania was largely the result of a positive reaction to the decision to join the Eurozone and the OECD in 2015. In Latvia, the growth was supported by the introduction of the euro as the common currency in January 2014. Estonia's economic growth in 2014 was 2.1%, the Latvian and Lithuanian economies grew 2.3% and 2.9%, respectively.

The main risks associated with the economic development of Estonia were related to the Russian-Ukrainian conflict, as well as uncertainty in the Eurozone and the standstill of the Finnish economy. Estonia's economic growth in 2014 was positively influenced by the manufacturing industry, energy and retail trade sectors, while value added decreased in construction, transport and storage. Regardless of the weak external climate exports increased (except to Russia), mainly supported by the growth of sales in the manufacturing industry. A large part of the industrial sector's growth was generated by the production of electronic equipment. The share of employee compensation in the economy increased, stimulating consumption and retail trade. The rapid growth of employee compensation is reflected in social tax receipts, which grew more than 8% within the year. At the same time, companies' profits dropped and investments decreased, as indicated by the decline in both value added of the construction sector and the imports of capital goods. The reduction in investments is mainly attributable to the energy sector.

YEAR 2014

- Since 1.4.2014, the Supervisory Board of AS Harju Elekter decided to suspend the activity of Harju Elekter AB for an unspecified term.

According to the Group's development strategy, Scandinavia and Sweden continue to be significant target markets, but the reason behind this step was the inefficient and cost-intensive business model used 2011 – 2013. Responsibility for the Group's Sweden-oriented business activity and the local clients was taken over by the sales and development teams of AS Harju Elekter Elektrotehnika, along with partner agents based in Sweden. Sales in the Swedish market increased in 2014 compared to the previous year by almost two times.

- On 17 June 2014, Satmatic Oy, a subsidiary of AS Harju Elekter in Finland, signed a contract for the purchase of all shares in Finnkumu Oy, Finland's largest pre-fabricated substation producer.

After the transaction, Finnkumu Oy continues to operate under its own

name and brand as a wholly-owned subsidiary of Satmatic Oy. By purchasing Finnkumu Oy, the Group will increase our market share in Finland as well as elsewhere in Scandinavia and increases the product range.

- In Q2 negotiations took place about selling minority stake in the associated company of AS Harju Elekter. On 9th of July 2014 AS Harju Elekter concluded a contract according to which AS Harju Elekter sells their 34% holding in AS Draka Keila Cables to the core investor

Prysmian Group. Selling the holding was a strategic decision of Harju Elekter Group. AS Harju Elekter is going to continue close cooperation with AS Draka Keila Cables in the procurements of low voltage and other cable products; similarly long-term rental contracts of production facilities are going to remain in force.

○ In September, an invitation to tender was announced in order to find a contractor for a 3100 m² production building to be built in the Allika Industrial Park, resulting in an agreement signed between AS Harju Elekter and Merko Ehitus Eesti AS. The construction works **were launched in October**. The construction is to be completed in June 2015, and a preliminary lease contract has also been signed.

○ Krediidiinfo AS awarded to AS Harju Elekter the credit rating AAA (excellent) and to its subsidiary AS Harju Elekter Elektrotehnika AA (very good). The rating of Krediidiinfo AS assesses the activities of the company as a whole and represents an aggregate assessment of the company's economic and financial condition as well as the payment patterns. Less than 10% of the Estonian companies have credit rating AAA or AA.

○ Finnish subsidiary Finnkumu Oy was awarded the certificate "Suomen Vahvimmat 2014" by the client register of Suomen Asiakastiedon. The creditworthiness of the company is the main evaluation criterion and the title is awarded to a company that has met the highest requirements

of Alfa rating. The number of such companies makes up only 12% of all companies registered in Finland.

○ Swiss CE Asset Management, along with its Baltic partners, announced the next nominees for the Corporate Excellence Award. AS Harju Elekter, a fourth year in the row was recognised as **the best in Estonia**. 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 Group's Estonian and Finnish subsidiaries, the process of implementing the Lean 5S/6S principles of increasing productivity and activities in order to increase profitability and customer satisfaction through the cost-effective use of resources was continued.

○ The Group's subsidiaries participated actively in exhibitions: in February, Satmatic Oy participated in the International Exhibition of Electricity Telecommunications Light and Audio Visual (Sähkö, Tele, Valo and AV), in Jyväskylä and in Subcontracting Exhibition in Tampere, in September. AS Harju Elekter Elektrotehnika participated in SLO Autumn Exhibition in September and AS Harju Elekter Trade Group presented its products range in the international building fair Estbuild, in April.



In 2014 **more than 1000 units of pre-fabricated substations** were produced by Harju Elekter Group.

In June, Harju Elekter purchased all the shares of **Finnkumu Oy**, the largest pre-fabricated substation producer in Finland. By this purchase the Group **will increase its market share in Finland as well as elsewhere in Scandinavia** and increases its product range.

B USINESS RESULTS

5 years financial summary

Group	2014	2013	2012	2011	2010
Statement of comprehensive income (million EUR)					
Net sales	50.6	48.3	52.8	46.7	40.9
Operating profit	2.2	1.7	2.0	2.0	1.5
Profit attributable to owners of the Company	9.7	5.2	3.5	2.8	2.2
Statement of financial position at the end of the year (million EUR)					
Total current assets	25.1	15.9	16.5	15.4	14.4
Total fixed assets	44.7	55.2	43.1	37.5	40.7
Total assets	69.8	71.1	59.6	52.9	55.1
Equity attributable to owners of the Company	58.5	62.5	48.8	40.3	44.0
Equity ratio (%)	83.8	87.9	81.8	76.2	79.8
Rates of growth (% , y-o-y)					
Net sales growth	4.8	-8.5	13.1	14.2	1.1
Operating profit growth	27.8	-11.5	-2.7	33.3	-16.1
Profit attributable to owners of the Company growth	87.9	46.8	26.8	27.6	76.9
Assets growth	-1.8	19.2	12.7	-4.0	39.5
Equity attributable to owners of the Company growth	-6.4	28.1	21.1	-8.3	43.1

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

Group	2014	2013	2012	2011	2010
Performance indicators (%)					
Operating margin	4.4	3.6	3.7	4.3	3.7
Net margin	19.3	10.7	6.8	6.3	5.6
Return of assets (ROA)	13.8	7.9	6.3	5.1	3.2
Return of equity (ROE)	16.0	9.2	7.9	6.6	4.4
Shares (EUR)					
Average number of shares (1000 pc)	17,400	17,400	17,093	16,800	16,800
Equity per share	3.55	3.20	2.61	2.51	2.22
The closing price	2.79	2.70	2.64	2.28	3.02
EPS	0.56	0.30	0.21	0.17	0.13
P/E	4.98	9.00	12.57	13.41	23.39
Dividend per share	⁽¹⁾ 0.15	0.10	0.09	0.07	0.06
Liquidity ratio					
Current ratio	2.8	2.3	1.8	1.8	1.8
Quick ratio	1.9	1.4	1.1	1.0	1.1
Personnel and remuneration					
Average number of employees	459	455	452	427	424
Number of employees at the end of the period	483	451	478	457	440
Wages and salaries (million euros)	9.2	8.6	9.1	7.7	7.0

⁽¹⁾ Management's proposal

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

In the 2014 annual report the financial indicators of AS Harju Elekter (the consolidating entity) and its subsidiaries: AS Harju Elekter Elektrotehnika, AS Harju Elekter Teletehnika, Harju Elekter AB (until 31.3.2014), Satmatic Oy, Finnkumu Oy and Rifas UAB are consolidated line-by-line and the results of affiliated company – AS Draka Keila Cables - by the equity method until 30.6.2014.

On 17 June 2014, Satmatic Oy purchased all shares of Finnkumu Oy, Finland's largest pre-fabricated substation producer. The annual report, prepared as at 31 December 2014, comprises, as of 1 July 2014, the financial statements of Finnkumu Oy.

In July 2014, Group sold its 34% holding in AS Draka Keila Cables to the core investor Prysmian Group.

AS Harju Elekter has a share of 4.6% in the Finnish company PKC Group Oyj. The shares of PKC Group Oyj 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.

In 2014 the consolidated net sales of the Group increased by 4.8% compared with the reference period, amounting to 50.6 million euros. The operating profit of the reporting year increased by 27.8% to 2.23 million euros and net profit by 89.0% to 9.78 million euros.

Sales Revenue, Net and Operating Profits

million euros



Out of the consolidated net sales 40% (2013: 47%) was contributed by the Estonian, 50% (2013: 40%) by the Finnish and 10% (2013: 12%) by the Lithuanian companies.

The Group's main area of activity is the production and marketing of electric power distribution and transfer equipment and related activities. As usual, these activities made up the largest part of the consolidated sales volume, i.e. 90.5%; real estate and other activities accounted for 9.5%.

As to the markets, once again the Finnish and Estonian markets were dominant with 88% (2013: 86%) of the Group's products and services sold there.

70% of the Group's products and services were sold outside Estonia (63% in the reference period). Increasing the share of foreign markets has been, and will continue to be in the longer term, one of the strategic goals for the Group's management.

Revenues from the Estonian market decreased during the reporting year by 15.3% amounting to 15.2 million euros. Reduced investments in the Estonian energy distribution sector resulted in a decrease in the sales volumes of MV distribution equipment and substations. Considerably fewer orders under the public procurement contract have been fulfilled. On the Estonian market, enquiries about this type of equipment have dropped. As the requirements for MV equipment have been reduced, lower-rated but price-wise more competitive European brands will also qualify in procurements. The volume of orders for energy sector products as defined in the public procurement contract is expected to increase in 2015.

The economic situation in Europe, the weak competitiveness of Finland and the continuing downturn in the Finnish export sector are also reflected in the economic performance of the Finnish industrial sector in 2014. At the same time, increased orders in the Finnish electrical energy distribution sector have helped to raise revenues. Satmatic Oy was successful in the strong competition, especially as regards the energy distribution sector. Annual sales

to the Finnish market increased by a quarter. In the second half of the year, a positive impact on the growth of the Finnish market came from the addition of the sales revenue of Finnkumu Oy, a unit substation producer acquired in June, which provided a 17% increase on the Finnish market in the 12-month period. The Group's Estonian and Lithuanian companies have also made a big contribution to the activities on the Finnish market. The companies in the Estonian segment increased their sales to Finland by 53% in the 12-month period, to 12.6 million euros, 5.8 million euros of which comprised products sold through the Finnish subsidiary. In the reporting period, the companies in the Estonian segment sold 58% more products than in the reference period. The Lithuanian segment's deliveries to Finland in the reporting year amounted to 1.9 (2013: 0.6) million euros, with intra-Group turnover accounting for only 4.8%. The Estonian and Lithuanian segments' sales revenue earned from external customers in Finland amounted to 23% of the sales revenue on the Finnish market in the 12 months of the year in question.

A significant part of the Lithuanian segment's revenue comes from the sales of electrical equipment, which decreased 4% in the 12-month period. In the reporting year, sales revenue from the Lithuanian market dropped by 61%. When the Lithuanian market accounted for 44% of the segment's sales revenue in 2013, then in the year concerned this figure dropped to 19%. At the same time, companies in the Lithuanian segment have increased their sales volumes on foreign markets by 33%, with deliveries to Finland growing by 1.3 million euros in 2014.

In Q1, the Group suspended the business operations of its Swedish subsidiary. As of April 2014, AS Harju Elekter Elektrotehnika is responsible for the Group's activities regarding Sweden. In the 12-month period, the Group sold products to the Swedish market in

the amount of 1.6 million euros, which is almost twice as much as in the reference period. In Q4, active efforts continued to find new cooperation partners in Sweden. The company participated in several tenders. In the last quarter of the reporting year, bids for substations on the Swedish market amounted to nearly 1.25 million euros.

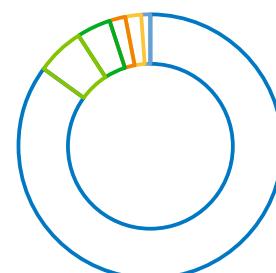
Sales revenue from other European Union markets grew to 1.14 million euros during the year. While deliveries to France decreased in the reporting year, sales volumes in the Latvian, Danish, German, Polish and Portuguese markets increased. In the report-

ing year, the company expanded to a new market – Slovakia. All in all, the sales volumes to other European Union countries have increased by half a million euros.

The Russian-Ukrainian conflict, along with the sanctions imposed, had a strong impact on the whole year. Deliveries to Eastern Europe have decreased by nearly 0.6 million euros, to 0.3 million euros. The volume of sales to the US market has grown.

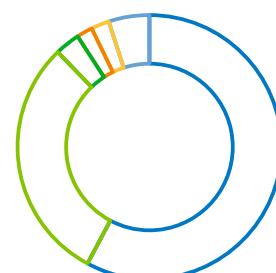
Sales Revenue

By business area



- Electrical equipment 85%
- Sales of electrical components 6%
- Real estate rent 4%
- Sheet metal products/services 2%
- Telekom products/services 2%
- Other services 1%

By market



- Finland 58%
- Estonia 30%
- Sweden 3%
- Lithuania 2%
- Other EU 2%
- Others 5%

Cost of products and services sold increased by 4.3% during the year, remaining in the 12-month period 0.5 percentage points below the growth rate of sales revenue in the reporting year. As a result, the consolidated gross profit for the 12-month period was 9.1 (2013: 8.5) million euros. In comparison to the reference period, the gross profit margin improved by 0.4 percentage points with the year, amounting to 17.9%.

Compared to the beginning of the year, the number of the Group's employees has grown by 32, reaching 483, with 18 employees joining us in connection with the acquisition of Finnkumu Oy in Q3. As a consequence of adjusting the salaries of the Group's employees in the second half of 2013, strong pressure to raise salaries, as well as the implementation of a manufacturing employees' qualification system at the Group's Estonian

companies, labour costs in manufacturing grew from 1 January 2014, resulting in an increase of labour costs as compared to the reference period. In the 12-month period, labour costs increased by 6.0%, amounting to 12.0 million euros. The ratio of labour costs to sales revenue was 23.8% (2013: 23.5%).

The Group's distribution costs in the 12-month period were 2.7 million euros, increasing by 3.6% compared to same period in the previous year. The ratio of distribution costs to revenue was 5.4%, remaining at the 2013 level. General administrative expenses decreased by 0.6% to 4.0 million euros during the year. The ratio of general administrative expenses to revenue was 8.0%, having decreased by 0.4 percentage points. In Q2, some of the staff of the Finnish company was restructured from general administration into sales. In the reporting year, the Group wrote off 103,000 euros in doubtful debts, the figure for the reference period was 155,000 euros.

Overall, the growth rate of operating expenses lagged behind that of sales revenue, increasing by 3.8% to 48.3 million euros during the year. In the reporting year, EBITDA as well as EBIT increased both by 0.5 million euros, to 3.7 million euros and 2.2 million euros, respectively. Return on sales before depreciation for the 12-month period improved by 0.6 percentage points, amounting to 7.4%, and return of sales by 0.8 percentage points, amounting to 4.4%.

Dividend income in the reporting period was 0.91 (2013: 0.95) million euros. In 2014, 200,000 (2013: 90,000) shares of PKC Group Oyj were sold, with financial income from selling the shares being 4.6 (2013: 1.7) million euros. The annual profit from financial investments totalled 5.6 (2013: 2.6) million euros and total financial income in 2014 amounted to 5.7 (2013: 2.6) million euros.

In Q3, the Group sold its 34% holding in AS Draka Keila Cables; the financial income from selling the shares was 1.8 million euros. Until June 30, the Group consolidated a profit of 0.8 (2013: 1.3) million euros from the associated company.

Income tax expense in 2014 was 675,000 (2013: 475,000) euros. The consolidated net profit of the reporting year was 9.8 million euros, increasing by approximately 4.6 million euros. The share of the owners of the parent company amounted to 9.7 million euros. EPS was 0.56 (2013: 0.30) euros.

Other comprehensive income

The market price of a share of PKC Group Oyj on the Helsinki Stock Exchange decreased during the period of 12 months by 6.72 euros and closed at 17.47 euros (2013: increased by 8.76 euros to 24.19 euros). Other comprehensive loss from the revaluation of financial assets amounted to 7.41 million euros in the reporting year, in the reference period there was a comprehensive income of 11.69 million euros. 4.61 (2013: 1.66) million euros of revaluation profit were earned from the sales of financial assets. As a whole, the revaluation reserve in the owner's equity decreased by 12.02 (2013: increased by 10.03) million euros. Differences in the exchange rate emerging in recalculation of figures of a foreign company formed an insignificant part of other comprehensive income/loss.

Financial position

The amount of the consolidated balance sheet of the Group as of 31 December 2014 was 69.8 million euros, decreasing by 1.3 million euros during the year. Most of the changes in the fixed assets derived from value adjustment of long-term investments in the

Helsinki Stock Exchange and the sale of financial assets. Overall, the cost of financial investments in the statement of financial position decreased by 12.2 million euros in the reporting year. In July 2014, the Group sold its 34% holding in AS Draka Keila Cables. As at the beginning of the year, the book value of the associated company in the statement of financial position was 3.6 million euros.

In the reporting year, the Group's investments in fixed assets amounted to 1.9 million euros; in the reference period, this figure was 2.3 million euros. Through business combinations, fixed assets totalling 4.9 million euros were acquired (Note 31). Overall, the cost of fixed assets decreased by 10.5 million euros the 12-month period amounting to 44.7 million euros.

By the end of the year business claims and prepayments amounted to 6.9 million euros, increasing by 1.0 million euros during the year, and inventory amounted to 8.1 million euros, increasing by 2.3 million euros, 1.5 million euros of which was inventory related to the acquisition of the subsidiary.

As at the reporting date, the Group's liabilities totalled 9.95 million euros, of which short-term liabilities made up 8.4 million euros. The Group's liabilities increased by 2.7 million euros with the year. Trade payables and other payables grew the most: 2.6 million euros, reaching 7.0 million euros. Short-term liabilities increased by 2.3 million euros year on year.

By the end of the year interest-bearing debt obligations amounted to 1.1 (31.12.2013: 1.8) million euros, with short-term obligations making up 0.3 (31.12.2013: 0.7) million euros. As at 31 December 2014, interest-bearing debt obligations formed 11.0% of the Group's liabilities and 1.6% of assets; as at 31 December 2013, these figures were 24.2% and 2.5%, respectively.

In the 12-month period, the net debt (interest-bearing debt obligations – cash and bank accounts) of the Group decreased by 6.5 million euros, amounting to -8.9 million euros by the end of the year. The ratio of net debt to owners' equity was -17.4%; in the reference period, it was -3.8%.

During the year, the owners' equity of the Group decreased by 4.0 million euros, amounting to 59.8 million euros by the end of the year.

At the end of reporting period current assets amounted to 36% (2013: 22%) and fixed assets to 64% (2013: 78%), on the other hand, foreign capital accounted for 14% (2013: 10%) and owners' equity for 86% (2013: 90%) of total assets.

In the reporting year, net cash from operating activities was 2.8 (2013: 2.5) million euros and 5.6 (2013: 0.5) million euros from investment activities. The largest expenditure in the reporting period was the acquisition of the subsidiary Finnkumu Oy. The owners were paid 6.7 million euros for their shares. The acquired company had 1.9 million euros in its account, resulting in a total net cash outflow of 4.8 million euros. The largest revenues came from the sale of financial assets (shares of PKC Group Oyj and the associated company), in the total amount of 11.1 million euros (2013: 1.8 million euros). PKC Group Oyj paid dividends to its shareholders at 0.70 euros per share. In 2014, AS Harju Elekter received dividends in the amount of 910,000 (2013: 950,000) euros.

In 2014 the Group paid dividends of 1.8 (2013: 1.6) million euros. Overall, the net cash used in financing activities was 2.5 (2013: 2.3) million euros. Cash and cash equivalents increased in the reporting year by 5.9 million euros, amounting to 10.0 million euros, while in the reference period it increased by 0.8 million euros amounting to 4.1 million euros.



A moderate increase
in the production of project products
continued during the reporting year and
additional resources
were used for development.

In 2014 we received
challenging new orders
for special substations

in Estonia as well as in Finland.



B USINESS SEGMENTS

As of 31 December 2014 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 (suspended for an unspecified term since 1.4.2014), has during the last years (including 2014) remained below the essential 10% and, therefore, it was recognised as within the composition of other fields of activities.

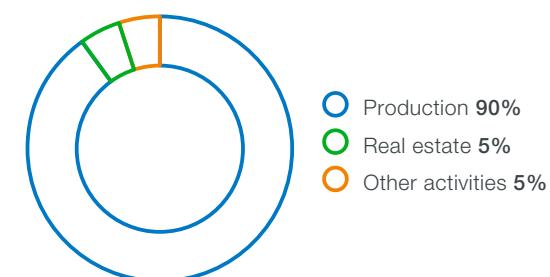
Revenue of Business Segments

million euros



Sales Revenue

By business segment



Production

The production segment includes electrical equipment factories in Estonia (AS Harju Elekter Elektrotehnika), Finland (Satmatic Oy, Finnkumu 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.

Sales Revenue

By company



In 2014 production gave 90.5% (2013: 88.9%) of the consolidated sales revenue. The segment's volume of sales decreased within a year by 6.7% amounting to 45.8 million euros.

AS Harju Elekter Elektrotehnika

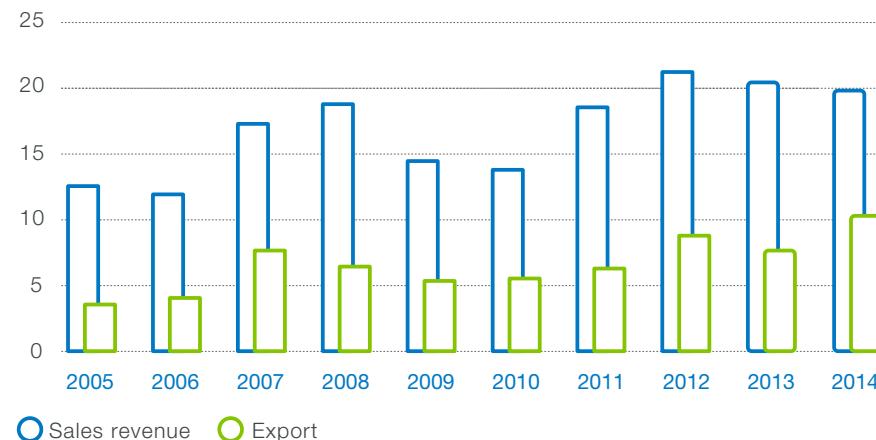
AS Harju Elekter Elektrotehnika, which is fully owned by the Group, is a leading manufacturer and distributor of MV/LV distribution units in Baltic countries. The headquarters and plant of AS Harju Elekter Elektrotehnika are located in Keila comprising 11,000 m² of production, warehouse and office premises. The average number of employees is 198, incl. 35 of them working in sales and R&D.

The economic activities of Harju Elekter Elektrotehnika in 2014 can be considered sound, as the company was able to retain its market share in the declining domestic market and even increase it in the foreign markets at a time of economic crisis, keeping its sales volumes at the level of the previous years. The company's sales revenue in 2014 was 19.9 (2013: 20.5) million euros in

an environment where domestic consumption was low and the economic crisis in Europe had weakened the customers' business situation as a result of poor demand. Indirectly, the company was also affected by the Russian-Ukrainian conflict. Although the economy of the Eurozone did not recover in the past year as expected, the share of sales of AS Harju Elekter Elektrotehnika to foreign markets increased, including intra-Group sales by 29%, reaching a record 53% of sales revenues.

AS Harju Elekter Elektrotehnika Sales Revenue

million euros



There were positive developments in carrying out cooperation contracts with the Finnish OEM (original equipment manufactory) and contracting entities in the energy sector. We also received challenging new orders for manufacturing automation panels for the industrial sector, MV and LV substations for the energy sector and special substations for the industrial sector. At the same time, the orders for standard products decreased with the year. Therefore we continued to widen our product range and directed additional resources to finding new markets, increasing the share of special solution products with a higher value added, and developing further project-based cooperation. As a result of successful negotiations a number of new large long-term cooperation contracts were also concluded.

As regards product groups, unit substations with concrete and metal enclosures still held the leading position in sales revenues.

Sales of substations grew by 6.5% compared to the previous year, amounting to 66% of the company's annual sales revenue, with the special substations (port cranes) product group significantly improving its position. Substations were followed by the LV equipment, LV serial products and MV primary and secondary distribution units' product groups, the sales of which both to domestic and foreign customers met expectations. The successful Q4 brought the annual sales revenues of LV equipment to a three-year record level.

In April 2014, the activities of Harju Elekter AB were indefinitely suspended due to the inefficient and cost-intensive business model. Responsibility for the Group's business activities regarding Sweden and the customers in that country went to the sales and development team of AS Harju Elekter Elektrotehnika and the partner agents in Sweden. As a result of structural reorganisation and good marketing, sales in the Swedish market increased in the reporting year.

The updating of the company's long-term strategy and the implementation of employees' qualification system continued in 2014. As regards describing the processes for increasing management effectiveness, we reached the final stage of developing success-based indicators and finished the preparations for structural changes to be implemented in 2015 in connection with the creation of quality and logistics departments. As concerns process development, the development of the planning process must be highlighted, where employees' proposals regarding the organisation of production constituted input for the consultations on improvement. The 5S activities continued in the production units. All the activities mentioned above are crucial to setting the company's objectives and for the smooth functioning of the organisation, as well as a precondition for increasing productivity.

In order to better understand the expectations and needs of customers, the company continued to regularly seek customer feedback on the quality of its main processes. We are happy to note that on the basis of customer feedback, the quality of the company's customer service (the recommendation index) has moved in a positive direction, meaning that our customers are increasingly recommending AS Harju Elekter Elektrotehnika as a business

partner. This information is also valuable for improving business processes within the company. The introduction of complementary options of the business software, MS Dynamics AX, also continued, including the improvement of the registry of electronic purchase invoices and the management reporting environment. On top of that, both licensors and key customers audited the production of MV and LV distribution units on several occasions throughout the year, during which the compatibility of products and technical documentation, the manufacturing process of

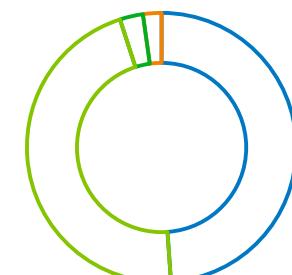
Sales Revenue

By product group



- Equipment for energy/power distribution **74%**
- Equipment for industry sector **19%**
- Equipment for building sector and infrastructure **6%**
- Other **1%**

By market



- Estonia **49%**
- Finland **46%**
- Sweden **3%**
- Other **2%**

products and other quality assurance related issues were thoroughly examined. The audits are useful for all parties and constitute an important basis for future cooperation.

During the reporting year, the company participated in various professional fairs and customer fair days and several customer visits and study days were organised. Active cooperation continued with the Tallinn University of Technology in the fields of product development and testing new products; a joint study programme with the Tallinn Polytechnic School was launched.

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

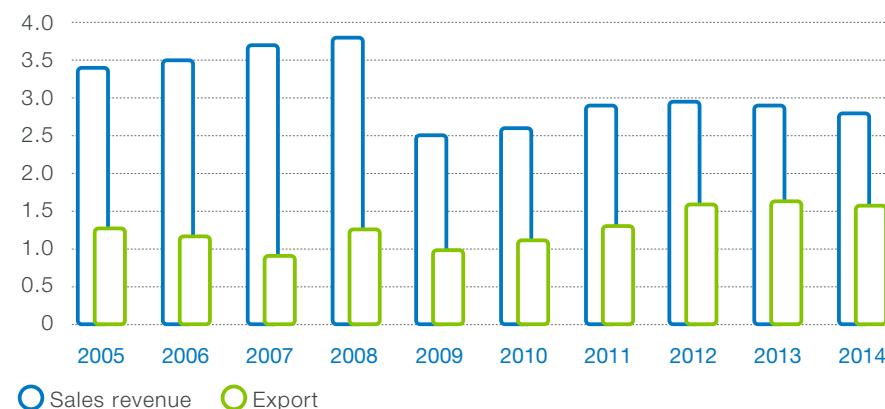
improving the organisation of work and the environment protection will be carefully observed. Additional opportunities are created by extending the exciting product range, reinforcing the co-operation between the companies belonging to the Group and continuing the co-operation with higher, specialised and vocational educational institutions.

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 65 people.

AS Harju Elekter Teletehnika Sales Revenue

million euros



2014 was a year of improving production organisation and developing new sales channels for the company.

The focus was on increasing the profitability of specific product groups and customer segments, as well as on improving general efficiency in production. Several activities were directed at raising customer satisfaction and security of supply with the ultimate objective of boosting customer confidence in the company's products and services. In the sheet metal sector, as in previous years, there was strong competition as regards prices and delivery times.

Overall, the sales revenue of AS Harju Elekter Teletehnika in the reporting year remained practically on the same level as in the previous year, decreasing by 0.4% to 2.9 million euros.

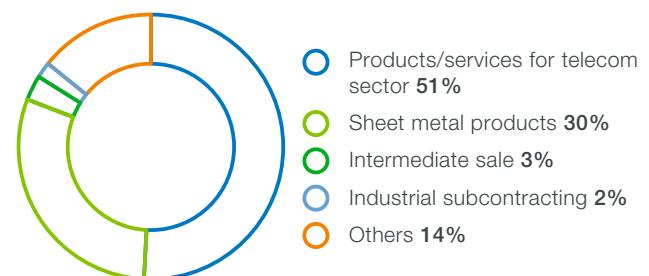
Both sales on the domestic market and intra-Group export increased, by 2.1% and 13.4% respectively, but sales outside Estonia decreased by 2.4%. The share of exports in the company's sales revenue was 55.2%. The largest foreign market was Finland (90% of total export turnover), followed by Sweden and Germany. The slight decline of foreign markets was mainly related to the Finnish telecommunications segment customers, who decreased their investments into data communication networks as a result of the unstable political and economic environment.

As concerns product groups, products and services linked to the telecommunications sector held the leading position with 58.5%, followed by sheet metal products, industrial subcontracting, intermediate sale of products and services and other products and services.

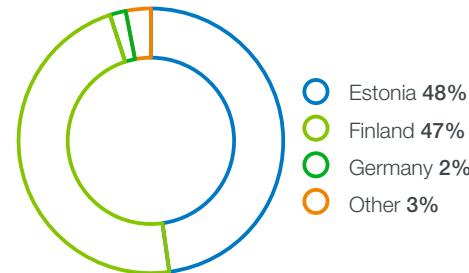
Several customer audits were organised at AS Harju Elekter Teletehnika in 2014, whereby customers evaluated the functioning of the company's processes and its ability to ensure product quality. Feedback from customer audits is crucial, as it helps the company to better understand customers' needs and adjust its processes accordingly, in order to offer customers more value added on a higher level.

Sales Revenue

By product group



By market



During the past financial year, the company presented its products at several fairs in Finland and Germany. The rapidly changing economic environment forces companies increasingly to focus their production activities and define their product and customer segments more strictly. In close cooperation with customers and as a result of continuous product development, AS Harju Elekter Teletehnika developed several new products as well as improved versions of existing products. The company committed to the development of production organisation, concentrated on the improvement of planning accuracy and increasing security of supply and launched the measurement and adjustment of operation times in production. In the field of manufacturing, the development of the 5S programme continued, the aim of which is to reduce non-value adding activities and the misuse of resources as well as to improve efficiency and product quality. A new system for upgrading stock and cost accounting of sheet metal was implemented.

The keywords for AS Harju Elekter Teletehnika during this year will be the growth of sales, short delivery times and products with higher added value, which constitute a precondition for both, increasing sales revenue and productivity, as well as ensuring the company's sustainability and boosting competitiveness. The company focuses on the development of new competitive products, improving the cost-effectiveness of production processes and raising the level of customer satisfaction. Development of employee knowledge and skills increases each employee's contribution, making the company more competitive and sustainable.

Satmatic Group

On 17 June 2014, Satmatic Oy, a subsidiary of AS Harju Elekter in Finland, signed a contract for the purchase of all shares in Finnkumu Oy, Finland's largest pre-fabricated substation producer. After the transaction, Finnkumu Oy continues to operate under its own name and brand as a wholly-owned subsidiary of Satmatic Oy.

In 2014, the Satmatic Group's sales revenue amounted to 26.0 million euros, and there are 92 employees working in Group.

Satmatic Oy

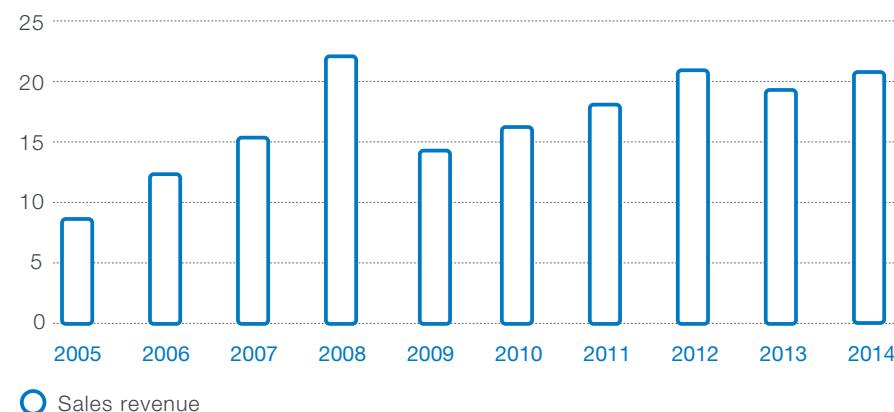
Satmatic Oy, a fully owned subsidiary of AS Harju Elekter, is a leading producer of automation equipment for the industrial sector and of electric power distribution and transfer equipment in Finland. The product range of the company covers the needs of customers from the development of products, programmes 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 75 employees.

The unstable economic environment in Europe and the downturn in the Finnish export sector were also reflected in the 2014 sales revenue of Satmatic Oy. Even so, increasing orders in the energy distribution sector contributed enough to ensure that the company's sales revenue grew compared to the previous year, reaching 21.4 (2013: 19.7) million euros. Sales outside Finland either directly or through intermediaries accounted for 63% of sales revenue.

Satmatic Oy Sales Revenue

million euros



Satmatic Oy operates mainly in three sectors: industrial sector, energy production and distribution sector and infrastructure.

According to the type of supply two different production models can be differentiated: contract manufacturing and project based product/solution. However, such orders from customer groups orientated to exports create uncertainty accompanied by 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 valuing customer relations, paying great attention to developing first-rate professional products/solutions as well as offering mutual added value. A moderate increase as regards project products continued in the reporting year, therefore additional resources were used for the development. Various electric, control and automation installations were developed at the factory and delivered to customers in the pulp and paper industry, as well as the rock wool, steel and food industries and for offshore, shipbuilding and mining sectors and (electrical) power stations.

The main target countries were Sweden, Russia, Poland, China, USA and Finland. Within the product group of serial products and products for contract customers, car heating switchboards and charging stations formed the largest share, with the products mainly sold by wholesalers. The share of energy distribution sector products in the product portfolio increased as a result of the leading Finnish substation manufacturer Finnkuu Oy joining the Group; the products – unit substations and cable distribution boxes – of this product group were delivered primarily to Finnish network operators, energy and power stations. On-grid and off-grid solar energy solutions proved to be the stand-out products in the renewable energy sector.

The daily business operation and organisation of Satmatic Oy follows quality and environmental policies based on international standards. Issues related to both quality and the environment, are discussed as an integral part of everyday management, sales, development, manufacturing, logistics and real estate management activities. The company's employees have received the relevant training that enables them to take note of problems and make suggestions to ensure that transport, waste management and usage of materials and energy are organised better and in a more environmentally friendly way. The activities of Satmatic Oy do not involve environmentally hazardous waste and the company's operations are in accordance with quality and environmental management standards ISO 9001/2008 and ISO 14001. In addition, Satmatic Oy has a valid UL certificate, which is a prerequisite for selling the company's products on the US market.

In 2015, the company's activities will be focused on finding new customers and more efficient involvement of wholesale and retail traders in the sales of substations, distribution and transfer equipment, as well as increasing on-line sales. In order to further develop the organisation of the company, greater attention will be paid to

Sales Revenue

By product group



- Equipment for industry sector 64%
- Equipment for energy/power distribution 28%
- Equipment for building sector, infrastructure 8%

By market



- Indirect export 55%
- Finland 37%
- Direct export 8%

intensifying the work of the development department and organising logistics more efficiently. With the objective of increasing the company's sales revenue, alongside offering first-class service to existing customers, we will concentrate on finding new customers on domestic and foreign markets, using both traditional and electronic sales channels. Further growth is expected from improving the efficiency of marketing activities in relation to the products of Harju Elekter Group (substations, distribution boxes, etc.) and involving wholesalers. To increase the sales of renewable energy products, heating switchboards for car parks and charging systems, these products will be made even more customer friendly.

Finnkumu Oy

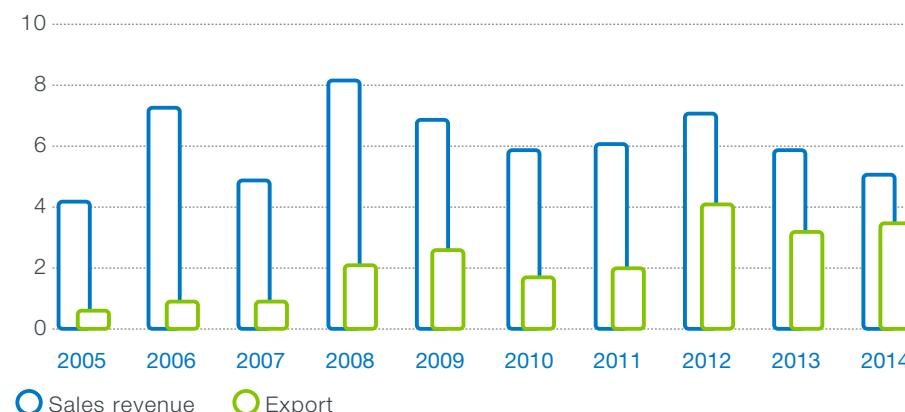
Finnkumu Oy is a wholly-owned subsidiary of Satmatic Oy and Finnish leading prefabricated substation manufacturer, involved in the planning, production and sale of electricity distribution devices, mainly substations and distribution cabinets. The company's headquarter is located in Kurikka and the company employees 17 people. In 2014, the company's sales revenue amounted to 9.0 (2013: 10.4) million euros, of which 4.0 million euros includes into the Harju Elekter Group's sales revenue.

Rifas Group

Rifas UAB is AS Harju Elekter's Lithuanian subsidiary, which located in Panevėžys. AS Harju Elekter own 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 82 employees.

Rifas UAB Sales Revenue

million euros



In 2014, the sales revenue of Rifas amounted to 5.3 (2013: 5.8) million euros. The decrease in sales revenue was due to the strategic decision to restructure the company's existing product portfolio, according to which it was decided to withdraw from the general contracting business that had so far accounted for a substantial part of the company's sales revenue 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 sales volumes of other product groups increased during the reporting 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 range of products of the company followed by control systems and panels and energy distribution products.

According to the company strategy and focal points in the fields of activities, main emphasis was put on boosting the efficiency of production processes and increasing production capacity, primarily in the export markets.

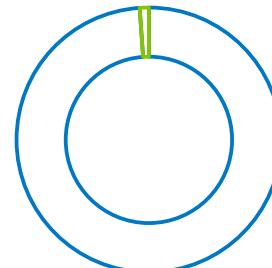
During the year, the standardisation of the company's product range continued and new standard products and solutions were developed that should ensure a strong basis for increasing the volume of production. Long-term persistent efforts resulted in the conclusion of new important cooperation contracts with several foreign partners.

The introduction of the new business and accounting software continued in the company; in 2014, the main focus was on implementing the production capacity planning and project management modules, along with introducing the financial and management accounting modules. Besides that, throughout the year preparations were ongoing for the introduction and adoption of the euro as of 1 January 2015, when Lithuania became member of the Eurozone. The exchange rate was fixed at 1 EUR = 3.4528 LTL.

For the further development of the company the main focus will be put on the reinforcement of strategic relations with existing cooperation partners and on active marketing to find new customers and projects. The development of project based customer relations on foreign markets will continue.

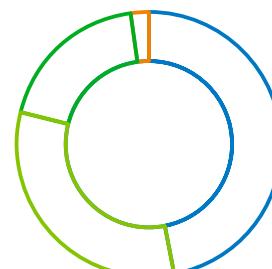
Sales Revenue

By product group



- Equipment for industry sector **99%**
- Equipment for building sector, infrastructure **1%**

By market



- EU countries **47%**
- Other Europe **32%**
- Lithuania **19%**
- Others **2%**

Real Estate Holding and Other Activities

The sales revenues of the real estate segment (Parent company) and other non-segmented activities (Parent company's Trade Group and until 31.3.2014 Harju Elekter AB) totalled 9.5% (2013: 11.1%) of the consolidated sales revenue, out of which merchandise formed 49.2%, rental income 45.1%, intermediary sale of services 4.0%, and income from other products/services formed 1.7%.

Sales Revenue

By activity



Real Estate Holding

The sales revenues of the segment were 2.4 million euros, being on the same level comparing to the previous year. Rental income amounted to 2.2 million euros, accounting for 89.3% (2013: 90.1%) of the profit of the segment. Rendering public and other services totalled 10.7% (2013: 9.9%) of the sales revenue of the segment.

Other Activities

During the reporting period, the sales revenues of other non-segmented activities decreased by 8.4% amounting to 2.68 million euros and forming 5.1% (2013: 6.0%) 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 (2013: 80) thousand euros.

AS Harju Elekter

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

The business activity of the Parent company gives 9.0% (2013: 9.6%) 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. In April 2014, the activity of Harju Elekter AB was suspended for an unspecified term, because of the inefficient and cost-intensive business model. Responsibility for the Group's Sweden-oriented business activity and the local clients was taken over by the sales and development teams of AS Harju Elekter Elektrotehnika, along with partner agents based in Sweden. Sales in the Swedish market increased in 2014 compared to the previous year by almost two times.



Long-term cooperation projects
with international partners **continued**.

During the reporting year, the special
substations (port cranes) product group
**improved its position
significantly.**





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.

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 2014, sales revenue of PKC was 829.2 million euros and the Group employees 19,437 people.

Profit Earned from Financial Investment

thousand euros



Share of PKC Group Oyj in 2012–2014



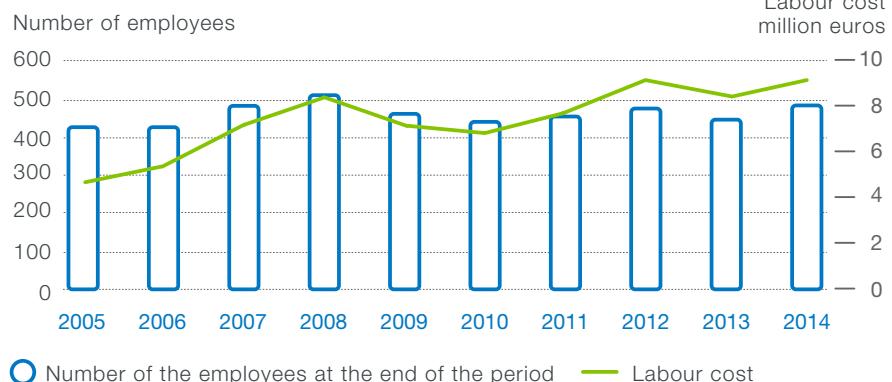
PKC shares are quoted on the Helsinki Stock Exchange and AS Harju Elekter has 4.6% of PKC shares as at December 31, 2014. The market price of the shares decreased in 2014 by 6.72 euros and on the last day of trading the price of a share on the Helsinki Stock Exchange was 17.47 (2013: 24.19) euros. PKC shares are valued in the balance sheet according to market price and the change in the market price of the shares has a direct influence on the Group's assets. The cost of investment in assets and reserves in equity decreased by the loss of 7.4 million euros; within the comparable period increased by the profit of 11.7 million euros. At a high price level, in order to promptly finance the purchase of the Finnish subsidiary, 200,000 shares in PKC Groupi Oyj were sold in May. The book value of the shares sold was 4.8 million euros. In total, the cost of financial investments decreased by 12.2 million euros to 19.1 million euros during 12 months period.

PKC Group Oyj paid dividends to the shareholders 0.70 euros per share. In 2014 AS Harju Elekter received dividends in the amount of 907,000 (2013: 948,000) euros. In Q2, the Group sold 200 (2013: 90) thousand PKC shares, the nonrecurring profit for which amounted to 4.6 (2013: 1.7) million euros.

PERSONNEL

The companies of the Harju Elekter Group are located in Estonia, Finland and Lithuania. However, most of the employees (85%) work in either Estonia or Finland.

Personnel and Labour Costs



While in Estonia unemployment has been declining (2014: 7.4%) and employment rates rising for several consecutive years, in Finland unemployment started to grow again last year, amounting to 8.8% of the working age population in December 2014. The structural unemployment, which has remained on a relatively high level, is a concern for both countries. In Estonia and Lithuania, employers have difficulties finding high quality labour and this is aggravated by the unattractive level of salaries in the business sector and the outflow of highly qualified specialists from these countries. The shortage of highly qualified labour has created a constant pressure to raise salaries.

As at the balance day on 31 December, there were 483 (2013: 451) people working in the Group and the average number of employees was 459 (2013: 455). Employee wages and salaries totalled 9.2 (2013: 8.6) million euros in the year 2014. The average wages per employee per month amounted 1,669 (2013: 1,584) euros. It is important to note, that the average wage in Finland is a multiple time higher compared to Estonia and Lithuania.

The majority of the Group's employees – 311 people – worked in Estonia, including 48 people who worked in the Parent company. At the end of the year, there were 92 people working in Finland and 80 in Lithuania. From 483 employees working in the Group 375 of them were men and 108 women, 113 of whom have higher education, 317 people have secondary or vocational secondary education and 53 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 is its solid organisational culture.

The high percentage of long-term employees motivates newcomers to preserve and develop this culture. 62.9% of employees have worked in the Group for over five years.

The average age of the Group's employees has remained stable, and was 41.2 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.

Since 2001, AS Harju Elekter has had close co-operative relations with Tallinn University of Technology (TUT), since 2010 as Golden Sponsor. Over the years, altogether 50 Bachelor's or Master's

degree students have participated in the scholarship programme and five young engineers are currently employed by the Group. In cooperation with the TUT and under the leadership of Marek Mägi, an electrical engineer at the subsidiary AS Harju Elekter Elektrotehnika, a prototype of a storage device for a substation with an energy management system capacity was completed. Within

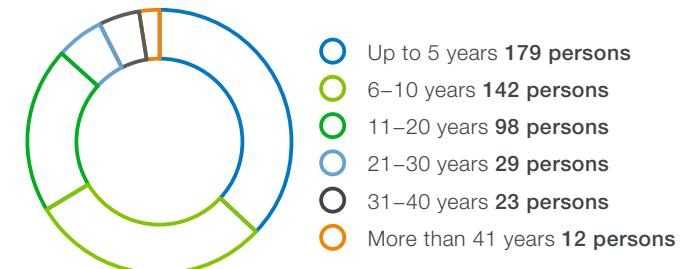
Employees

By country



Length of Service

In Harju Elekter Group



the framework of a joint development project of AS Harju Elekter Elektrotehnika and TUT, the prototype device is being tested at the TUT on a real micro-grid test bench. The prototype device will be presented for the first time in May 2015 at the largest Nordic electrical engineering fair Elfack in Gothenburg.

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.

In the reporting year, companies in the Group continued to focus on optimising costs and ensuring the efficient operation of the organisation. The qualification system of manufacturing employees was implemented in the Group's Estonian companies during the reporting year, which has helped link employees' skills and contribution to a fair and motivating pay and pointed out possibilities for the development and for increasing salaries. The qualification system implemented has proven to be so successful that the mapping of jobs of administrative personnel is planned to be carried out in the beginning of 2015. Exercises and training courses organised for employees during the year were mainly aimed at improving professional skills and qualifications. In the production units, activities continued in order to implement the 5S production model and first results have been achieved in the form of increased productivity and reduced losses. 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 and 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 to motivate them acting in the best interest of the Group;
- the cross company as well as cross-border employee exchange programmes, promote the rapid development of knowledge and skills within the Group and offer rotation opportunities.

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

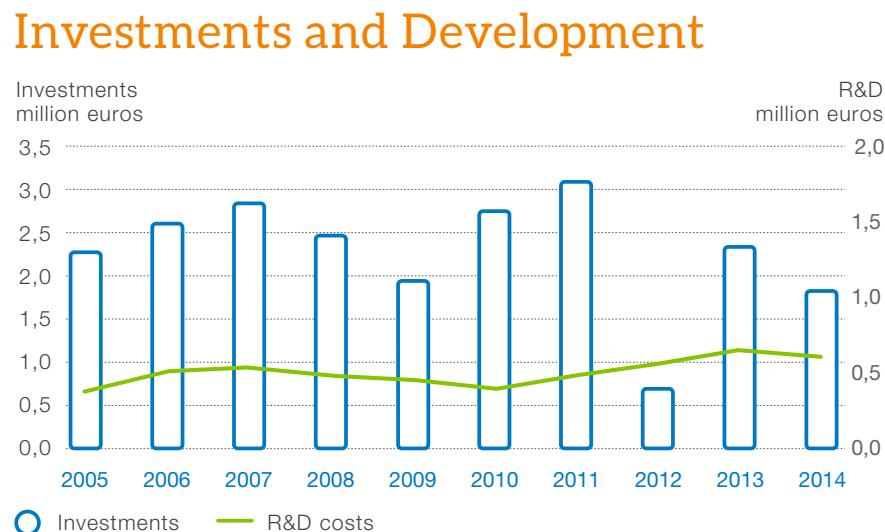
I NVESTMENTS AND DEVELOPMENT

In 2014, the Group investments to real estate, tangible fixed assets and intangible fixed assets totalling 1.9 (2013: 2.3) million euros. In addition, fixed assets totalling 4.9 million euros were acquired through business combinations.

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 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 Dynamics AX management and business software continued in the Group's Estonian companies.

Although the largest investments in that regard were made in the years 2009–2011, work continued to identify, adjust and introduce new modules and additional options of the business software. In 2014, the focus of the Group's Estonian companies' development activities in the field of information systems was on projects related to business analysis and information dissemination; preparations were started for the upcoming renewal of the management and business software version in 2016. The Group's Finnish and Lithuanian subsidiaries were also carrying out activities to implement and develop the management and business software and integrate it into a common platform. Development of the CRM and QlikView programmes continued in all subsidiaries. Investments in the development of business software made during the reporting year



totalled 188,500 (2013: 84,500) euros and investments in information technology equipment amounted to 98,000 (2013: 73,800) euros.

As regards process developments, the development of the planning process in AS Harju Elekter Elektrotehnika must be highlighted. All subsidiaries continued with the 5S activities to increase productivity and reduce additional costs.

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 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 2014, assigned grants were received mostly for marketing actions and totalled 15.4 (2013: 19.0) thousand 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 2014 the development costs, at cost price, of the Group amounted to a total of 0.60 (2013: 0.62) million euros, accounting for 1.2% 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 2014 was diverse and interesting for the Estonian product development team. The Development Centre which pools the engineers from product development and technical departments and sales engineers of AS Harju Elekter Elektrotehnika grew by 4 persons. Now the unit consists of 23 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.

A significant part of the product development resources of the Keila Development Centre in 2014 was used to develop a new solution for substations with concrete and metal enclosures specifically designed for the export markets. Product development activities and testing products at the Tallinn University of Technology continued, during which the production of a smart grid substation prototype and device was developed and implemented. The upgrading of the substation product portfolio was started with the aim of ensuring the compatibility of these products with the requirements of the new directive, soon to enter into force.

In the reporting year, large long-term cooperation contracts to manufacture substations and control system cabinets for the export markets were concluded and successfully launched.

The Group's product development team developed challenging solutions in connection with the manufacture of control system cabinets for the industrial sector, MV/LV substations for the energy sector and special substations for the industrial sector. One positive development was the significant improvement of the position of the special substations product group, which has used up considerable product development resources.

The Finnish and Lithuanian subsidiaries focussed on developments and projects related to renewable energy and offering suitable solutions in this field. On top of that, Satmatic Oy made efforts to increase the level of automation by purchasing and installing two new pieces of equipment: a CNC punch press and a cable connector installation and cutting device. The Finnish

subsidiary increased its sales of solar power equipment and services. The development of heating switchboards for car parks and charging systems for electric cars continued in order to make these products even more customer-friendly.

The Group's subsidiaries participated actively in professional fairs: in February, Satmatic Oy participated in the International Exhibition of Electricity Telecommunications Light and Audio Visual (Sähkö, Tele, Valo and AV) in Jyväskylä and in a subcontracting fair in Tampere in September. Also in September, AS Harju Elekter Elektrotehnika participated in the traditional SLO autumn exhibition, and in April, the AS Harju Elekter Trade Group presented its product range at the international building fair Estbuild.



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 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 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. The further development of the management and business software and implementation of additional modules continued in all subsidiaries; the Finnish company's work also included software related integration activities.

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 2014 a new certificate for the next three year period was issued 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.

Certificates Issued to Harju Elekter Group Companies

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Harju Elekter Elektrotehnika		ISO 9001 / ISO 14001 (since 2000)		○			○			up to 1/2016
Harju Elekter Teletehnika	○		ISO 9001 / ISO 14001 (since 2002)		○		○			up to 1/2017
Rifas			○ ISO 9001 (since 2003)		○			ISO 14001 OHSAS 18001	up to 12/2015	
Satmatic			○ ISO 9001 (since 2003)		○			ISO14001	up to 10/2015	

○ – recertification



Various electric, control and automation installations were developed at the factory

and delivered to customers active in the pulp and paper industry and the rock wool, steel and food industries, as well as for offshore, shipbuilding and mining sectors and (electrical) power stations.

CORPORATE TARGET FOR 2015

The preparation of the 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 strategy to which short-term as well as long-term decisions are guided by the Group's aim to be the well-known and recognised producer of electrical equipment and automation devices in the Baltic and Scandinavian countries who manufactures and delivers a highly professional range of products and comprehensive solutions in the segment of MV and LV products, using advanced technology and the best know-how available. The Group's activities derive from the concept of supporting our customers' and partners' interests and preferences in all our actions and decisions.

Alongside first-class service offered to our existing customers, the key factor for the Group's further development continues to be finding new customers and increasing sales outside Estonia in the neighbouring countries, other EU countries and beyond. The Group's marketing and sales are increasingly concentrated on foreign markets, developing technically and quality-wise impeccable products and solutions in accordance with our customers' and partners' high expectations.

In 2015, the Group will focus on:

- more efficient marketing and sales activities on all domestic markets and on expanding these activities
- continuing work to find new customers, partners and projects in Scandinavian countries
- remaining a part of our loyal customers' business activities and an integrated partner worldwide
- further developing the product and service range in the energy and industrial automation sector and industrial real estate sector in order to offer customers and partners even more focussed and comprehensive solutions
- developing energy efficient and smart technical solutions
- developing solar power stations and including them in our product range; improving and adapting the existing product range developed in the Group
- ensuring greater efficiency of the business activities and production processes of the companies belonging to the Group through the addition of the necessary development projects and/or resources
- developing information systems throughout the Group that would allow using modern and smart solutions in decision-making processes as well as a reporting system that includes future-oriented assessments
- smart and focussed investments in production resources, real estate development and information technology
- active efforts to seek out and launch potential financial investment, merger and takeover projects

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 Group. It delivers trading, exchange technology and public company services across six continents, with over 3,200 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 nominal value of a share is 0.70 euros. The symbol of an AS Harju Elekter share in NASDAQ is HAE1T. ISIN: EE3100004250. 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.

2013 was a record year for the world's stock exchanges with both US and German shares reaching new heights and the London Stock Exchange being just short of a record level. In 2014 the markets experienced more turmoil but regardless of a modest start, the largest stock market index in the US, S&P500, increased by 12% during the year. The trading year was far less positive for the European shares – the Stoxx Europe 600 index grew by 4%.

The Tallinn Stock Exchange OMXT index fell by 8% to 755 points with the year, having the smallest turnover in history and decreasing by one-third compared to the previous year, to 127 million euros. According to analysts the year was difficult, primarily on account of the unpredictable Russian-Ukrainian crisis that affected the performance of a number of companies. Out of the 15 shares remaining on the stock exchange only four were able to rise, including that of AS Harju Elekter.

In the reporting year, the share price of AS Harju Elekter increased by 3.3% to 2.79 euros and the company's market value as at December 31 was 48.6 million euros. Compared to the previous year, the volume of transactions and the number of shares traded decreased.

Key Share Data

EUR

	2014	2013	2012	2011	2010
Number of shares (in thousand)	17,400,000	17,400,000	17,093,443	16,800,000	16,800,000
Nominal value	0.70	0.70	0.70	0.70	0.64
Highest price	2.85	2.92	2.80	3.54	3.14
Lowest price	2.52	2.46	2.30	2.19	2.02
Closing price	2.79	2.70	2.64	2.28	3.02
Change (%)	3.3	2.3	15.8	-23.8	45.9
Market value (in million)	48.55	46.98	45.94	38.30	50.74
Traded shares (pc)	800,823	936,162	759,869	663,917	2,039,910
Turnover (in million)	2.17	2.48	1.88	1.88	5.40
Earnings per share, EPS	0.56	0.30	0.21	0.17	0.13
P/E	4.98	9.50	12.57	13.41	23.39
Dividend per share	*0.15	0.10	0.09	0.07	0.06
Dividend yield (%)	5.4	3.7	3.4	3.1	2.0
Dividend payout ratio (%)	26.6	33.7	44.5	42.4	46.5

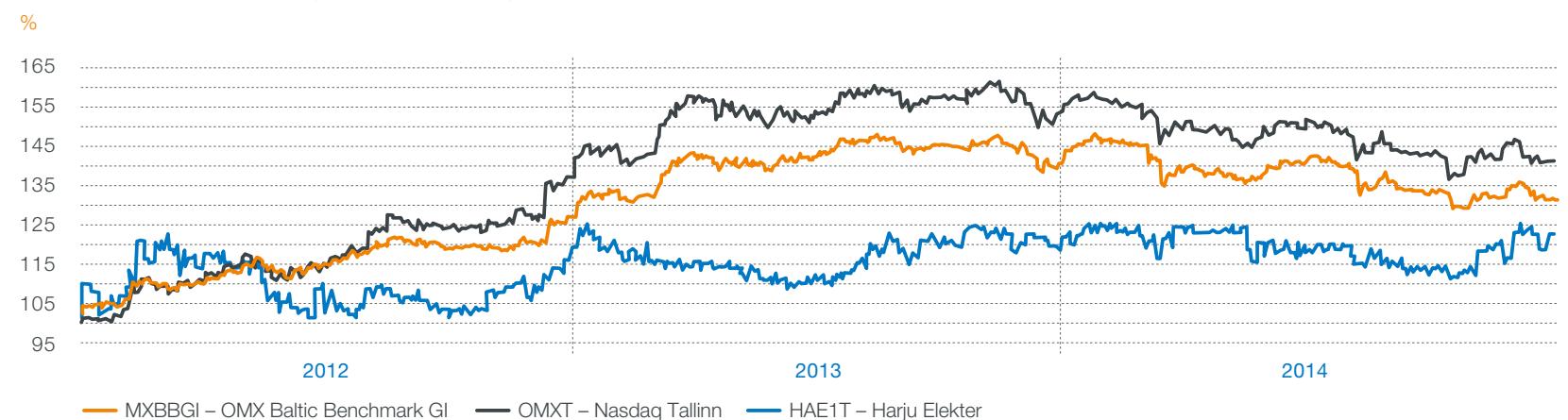
**Proposal of the Management Board*

Share of AS Harju Elekter in Tallinn Stock Exchange 2012–2014



A Comparison of AS Harju Elekter Share Indexes 2012–2014

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



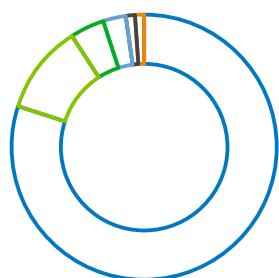
Shareholders structure, at 31 December 2014

At the end of 2014, AS Harju Elekter had 1,473 shareholders. The number of shareholders decreased during the year by 27 persons. The largest shareholder of AS Harju Elekter is AS Harju KEK, a company based on local capital which as at December 31, 2014 held 32.0% of AS Harju Elekter share capital. Members of the supervisory and management board and persons or companies associated with them hold 9.55% of the shares. The comprehensive list of shareholders is available at the website of the Estonian Central Register of Securities (www.e-register.ee).

Shareholder structure by size of holding

Holding	No of shareholders	% of all shareholders	% of votes held
> 10%	2	0.14	42.92
1.0 – 10.0%	12	0.81	27.91
0.1 – 1.0%	54	3.67	15.03
< 0.1%	1,405	95.38	14.14
Total	1,473	100.0	100.0

Shareholders by Country



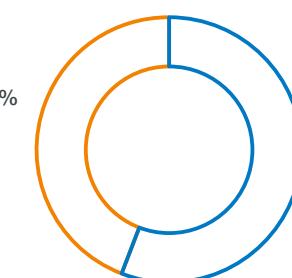
- Estonia **80%**
- Luxemburg **11%**
- USA **4%**
- Sweden **3%**
- Finland **1%**
- Others **1%**

> 5% Shareholders



- AS Harju KEK **32%**
- ING Luxembourg S.A. **11%**
- Mr Endel Palla **6%**
- Mrs Tiina Kirsme **5%**
- Others **46%**

Shareholders by Category



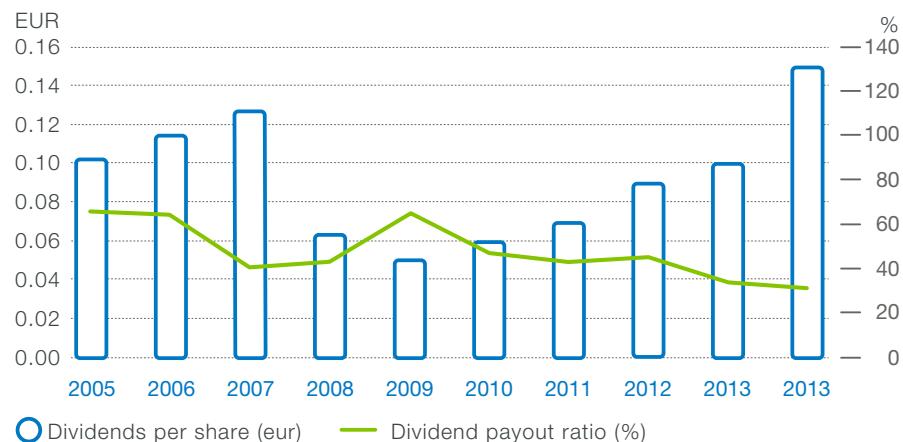
- Companies, banks, funds **56%**
- Individuals **44%**

Dividends

According to the dividend policy of the Group one third of the net profit of regular activities 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 0.15 (2013: 0.10) euros per share, totally 2.61 (2013: 1.74) million euros for the financial year 2014, which follows the principle of paying out a one third of the annual net profit minus exceptional profit from the sale of AS Draka Keila Cables.

Dividends History



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

CORPORATE GOVERNANCE

Corporate Governance Report 2014

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 2014, 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 con-

sidered 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 0.4% 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 2014 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 follow-

ing tasks: observe and analyse the processing of financial information; the efficiency of risk management and internal audit; the process of audit control of consolidated financial statements; 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 Recommen-

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

Governance principles and additional information

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

General meeting

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

The annual general meeting of 2014 was held on 8 May at Keskvälik 12 in Keila, Estonia. A total of 65.57% of the voting stock were represented. The general meeting approved the 2013 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 2014, the supervisory board met nine times. All members of the supervisory board attended all or most of the meetings. According to the Articles of Association, AS Harju Elekter's supervisory board has 3-5 members. The members are elected by the general meeting for a period of five years.

In connection with the expiration of the authorisation deadline of the Supervisory Board of AS Harju Elekter, the AGM assigned a five-member Supervisory Board for the next five-year period, at its meeting on 3 May 2012. The present members of board are Endel Palla (chairman), Ain Kabal, Madis Talgre, Triinu Tombak and Andres Toome. In 2014, there were some changes in Supervisory Board of AS Harju Elekter. Mr Madis Talgre, a member of the Supervisory Board of AS Harju Elekter presented to the company an application for his resignation from the position of AS Harju Elekter Supervisory Board member. AGM elected on its 8th May meeting Mr Aare Kirsme to the position of AS Harju Elekter Supervisory Board member. Since 8th of May, the Supervisory Board has 5 members with the following membership: Endel Palla (Chairman and R&D manager of AS Harju Elekter) and members Ain Kabal (Hansa Law Offices), Aare Kirsme (Chairman of the Supervisory 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 Hansa Law Offices legal adviser and a lawyer, who has long-term experience in advising Group's companies on legal issues. Mr Toome (chairman of OÜ Tradematic) 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. Mr Kirsme is a chairman of supervisory board of AS Harju KEK, the biggest shareholder of AS Harju Elekter (holding 32.0% of the shares of the company on 31.12.2014). 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 2014, the members of the Supervisory Board owned in accordance with their direct and indirect ownerships totally 8.4% (2013: 7.3%) 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.

The company has a one-member Management Board. In connection with the expiration of the authorisation deadline of the

Management Board of AS Harju Elekter, at its meeting on 5 May 2014 the Supervisory Board extended the contract with Andres Allikmäe, the Chairman of the Management Board for the next three-year period. 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 2014, the members of the Management Board owned in accordance with their direct and indirect ownerships totally 1.15% 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 consolidated financial statements; 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 KPMG Baltics UAB (2013: Baltijos Auditas UAB) in Lithuania and KPMG Oy in Finland. In 2014, there was no need to conduct an audit in Swedish subsidiary; in 2013 the audit are carried out by Allians Revision & Redovisning AB.

SOCIAL RESPONSIBILITY AND CHARITY

Social Responsibility Report 2014

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 chil-

dren 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 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 2014 amounted to 24.4 (2013: 13.7) thousand euros.

Information About the Supervisory and Management Boards



**ENDEL
PALLA**

(19.06.1941)

*Chairman of the
Supervisory Board*



**AIN
KABAL**

(10.06.1962)

*Member of the
Supervisory Board*



**AARE
KIRSMEE**

(8.11.1975)

*Member of the
Supervisory Board*

Education: Tallinn University of Technology (TUT), engineer

Career: 1969–1983 Harju KEK, production manager
1983–1999 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 Elektrotehnika,
AS Harju Elekter Teletehnika.
Member of the Supervisory Board: AS Harju KEK, Laagri Vara,
AS KMV, AS Entek.
Ch of the Management Board: Satmatic Oy.
Member of the Management Board: Rifas UAB, Finnkumu Oy.

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 0.36%.

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, partner
2011–2013 Viru Keemia Group AS, head of legal dept
2014–Hansa Law Offices, legal advisor

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

Manager: Kabal & Partners OÜ, Investkonsult OÜ.

Social activities:

Harju County Entrepreneurship and Development
Consultancy, member of the Council

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

Education: UT Law Institute, Faculty of Law

Career: 1998–1999 Estonian Land Board, lawyer
2000–2013 AS Harju KEK, legal consultant
2002–2011 AS Devest, lawyer
2012–AS Harju KEK, Ch of the Supervisory Board

Aare Kirsme owns 228,250 of Harju Elekter shares.
He has direct participation 1.31%. He doesn't have indirect
holdings.



**TRIINU
TOMBAK**

(7.01.1971)

*Member of the
Supervisory Board*



**ANDRES
TOOME**

(9.01.1972)

*Member of the
Supervisory Board*



**ANDRES
ALLIKMÄE**

(7.02.1957)

Managing Director/CEO

Education: Tallinn University of Technology (TUT), economics

Career: 1993–1998 Estonian Investment Bank, Optiva Bank. Loan dept., investment dept. 2001–2009 World Bank. Publishing dept., consultant, since 2006 sales manager of online databases and e-Library. 2014– TH Consulting OÜ, manager

Social activities:

2013– Praxis Center for Policy Studies, member of the Supervisory Board, since 2014 chairman

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

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 Olümpia purjespordikeskus. 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 0.29%.

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 Member of the Management Board: Satmatic Oy, Rifas UAB, Harju Elekter AB, Finnkumu Oy.

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.

Please find the year 2014 audited annual report of AS Harju Elekter here
http://www.harjuelekter.ee/sites/default/files/public/pdfid/HE_annualreport2014_eng.pdf

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