

# 2015

Annual Report

# CONTENTS

Information to the Shareholders	3
Address by the Chairman of the Supervisory Board	
The Success is Based on Good Business Insight	4
Address by the Managing Director/ceo	
Changes are the Precondition for Development	6
Organisation	8
Overview of the Economic Environment	9
Year 2015	11
Business Results	13
Business Segments	19
Other Financial Investments	31
Personnel	33
Investments and Development	36
Quality Management and Environmental Policy	39
Corporate Target for 2016	42
Share and Shareholders	43
Corporate Governance	48
Social Responsibility and Charity	53
Information About the Supervisory and Management Boards	55
Please find the year 2015 audited annual report of as Harju Elekter here	57

# INFORMATION TO THE SHAREHOLDERS

## Annual General Meeting

The AGM of shareholders of Harju Elekter will take place on April 28, 2016 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 € 0.05 per share for the financial year 2014. The list of shareholders who are entitles to dividends will be closed on May 12, 2016 at 11.59 p.m. The dividends will be transferred to the bank accounts of shareholders on May 17, 2016.



**Contact for Investors**  
MOONIKA VETEVOOL  
Corporate communication  
and investor relations manager  
Tel +372 671 2761,  
moonika.vetevool@he.ee

AS Harju Elekter,  
Paldiski str 31,  
76606 Keila, Estonia

## The Publication of Financial Reports in 2016

Harju Elekter informs you that in the year 2016, the consolidated financial results of AS Harju Elekter will be published as follows:

Interim Report Q1 2016	28.04.2016
Interim Report Q2 2016	28.07.2016
Interim Report Q3 2016	27.10.2016

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.

# The success is based on good business insight

**Endel Palla**

*Chairman of the Supervisory Board*

All in all, the year 2015 was good for the Harju Elekter Group: the sales revenue and the operating profit were at an all time high. This is mainly thanks to the subsidiaries of the Group that operate outside Estonia. The Finnish company, Finnkumu Oy, which was purchased in 2014 has done excellent work. The company was declared for the second year in row the best Finnish company in its region. The decision to increase the Group's holding of the Lithuanian subsidiary, Rifas UAB, to 100% proved to be right as well. The development of this company during the reporting year has been impressive. The Group is constantly looking for new investment opportunities in innovative companies, and by that, will be a driving force that will contribute to the future success of the Estonian economy. In 2015 the Group invested in 10% holding of Skeleton Technologies OÜ which is a company developing super condensers.



The Estonian companies of the Group who were not able to compensate for the drop in orders of substations on the home market that has lasted for couple of last years by replacing them with other products found themselves in a difficult position in 2015. Also, the demand decreased on the Finnish market. Despite these difficulties, I believe in the capability of our team to react quickly and adequately to the changes. Because of the smallness of domestic markets it is difficult to succeed in Lithuania, Latvia and Estonia and in order to accelerate the growth, intensive marketing should be carried out to increase the Group's market share in the neighbouring countries. However, I think it is important to keep the good reputation of the company in the domestic market where AS Harju Elekter has for years been acknowledged as the best and the most reliable manufacturer of electric switchboards. We have to be innovative and flexible, winners in the competition that is becoming tougher and tougher.

The Group's real estate development has been successful ensuring a constant income. In 2015 we built and handed over the first industrial building in the new Allika Industrial Park. The production spaces in Haapsalu left empty by PKC Eesti AS have been accommodated by new leaseholders. AS Harju Elekter has a long-term experience in bringing international industrial enterprises to Estonia and founding (productive) enterprises. If we add the experience in industrial real estate development and property management services, we have created excellent preconditions for the successful completion of the Allika Industrial Park located on the outskirts of Tallinn. We expect that Estonian as well as international companies will participate in the project.

The shares of AS Harju Elekter were first listed on the Tallinn Stock Exchange in 1997. In order to ensure that the company is continually attractive to shareholders we do everything we can to make its business activities successful and transparent. According to the leading business newspaper in Estonia AS Harju Elekter was, continually, the third best company listed in the Tallinn Stock Exchange, ensuring its shareholders 10% return from their investment. The continually high number of shareholders shows that the trustworthiness and solid dividend policy of the company is highly rated. We will continue the payment of dividends every year.

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*





# Changes are the precondition for development

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

The future will come independently from our wishes. All we can do is to decide whether we want to forecast it in a systemised way or reconcile with the uncertainty proceeding from the chaos. The world around us is in constant transformation and it is not easy to forebode it. It is even more difficult to understand all the variables that influence our customers, markets and people's behaviour in general. The so-called Z-generation of young people whose expectations and assumptions are totally different from previous generation has made a strong entrance. They are not interested in our sophisticated opinions and wooden beliefs. They will come and win and if we will not understand their language and accept their choices they will walk away. It means that, above all, we have seriously to consider the new ways of life – new convictions, new solutions, new economy and substantially more overwhelming of presence of digitalisation. Money and values will obtain totally different dimension. The Harju Elekter Group wants to be ready for all the changes to come.

The previous reporting year of 2015 was positively complex for the Group. Changes were constantly taking place around us, overtaking us sometimes and making decisions for us. However, the year 2015 turned out to be the most successful in the Group's existence. The sales volume increased to 60.7 million euros, which was 20% more than in 2014. The operating profit amounted to 3.3 million euros, exceeding the results of the previous reference period by 47%. Extraordinary financial income had a strong effect on the Group's net profit in 2014, making it considerably higher than in 2015, but the net profit of 3.2 million euros produced in the reporting year is still a remarkable achievement. The year 2015 showed clearly that the real focus of the Group's business activities is and should be outside of Estonia. A total 77% of sales revenues were gained abroad. The local market is shaky and dependant on the moderate investments made by the national network operator, Elektrilevi, i.e. it depends on general political decisions that will affect substantially the security of power supply to Estonian inhabitants and companies. Other product segments in Estonia and in the whole Baltic region are more strongly influenced by the pressure on price than by quality. The companies of the Group have certainly done their best, but market expectations on price, as well as decisions made by purveyors, are often more influenced by economic considerations than technical reliability and quality criteria. The outstanding economic results of the Group were achieved mainly thanks to the Finnish and Lithuanian subsidiaries. Estonian companies' results could have been better. However, we have reacted to market challenges and can be quite content with the changes made. Changes were made in business plans, personnel and organisation. We approach next year with confidence, having prepared a new vision and new plans.

2015 was an eventful year. The Group increased its holding in the Lithuanian subsidiary to 100% and made a strategic 10% investment in a newly

started technology company, a manufacturer of super condensers, Skeleton Technologies Group OÜ, which could give us the opportunity to use them in the Group's primary activity – the production of electrical equipment. The business success of Finnkumu Oy, which was purchased in 2014, has continued and brought added value to the Group. Subsidiaries participated in several professional fairs in Sweden, Finland and Estonia. A new production building was handed over to the first leaseholder in the Allika Industrial Park. The Keila shop and storage belonging to the trading group moved into new premises. The companies of the Group were noted for their success in several competitions.

The balance sheet and cash flows of the Group were outstanding all year round. Strong equity and almost non-existent loan commitments ensure the capability to involve debt finance and capital in the future.

The joint achievements gained during the 47th business year of the Harju Elekter Group were only possible thanks to our customers, partners and employees. I want to offer my sincere thanks to all of them. I would also like to thank our loyal shareholders and investors whose strong support enables the Group to move on in a sustainable manner. Our future is in changes and AS Harju Elekter is ready for them. Good luck to all of us in our anticipations and accomplishments!



Andres Allikmäe  
*Managing Director/CEO*

# ORGANISATION

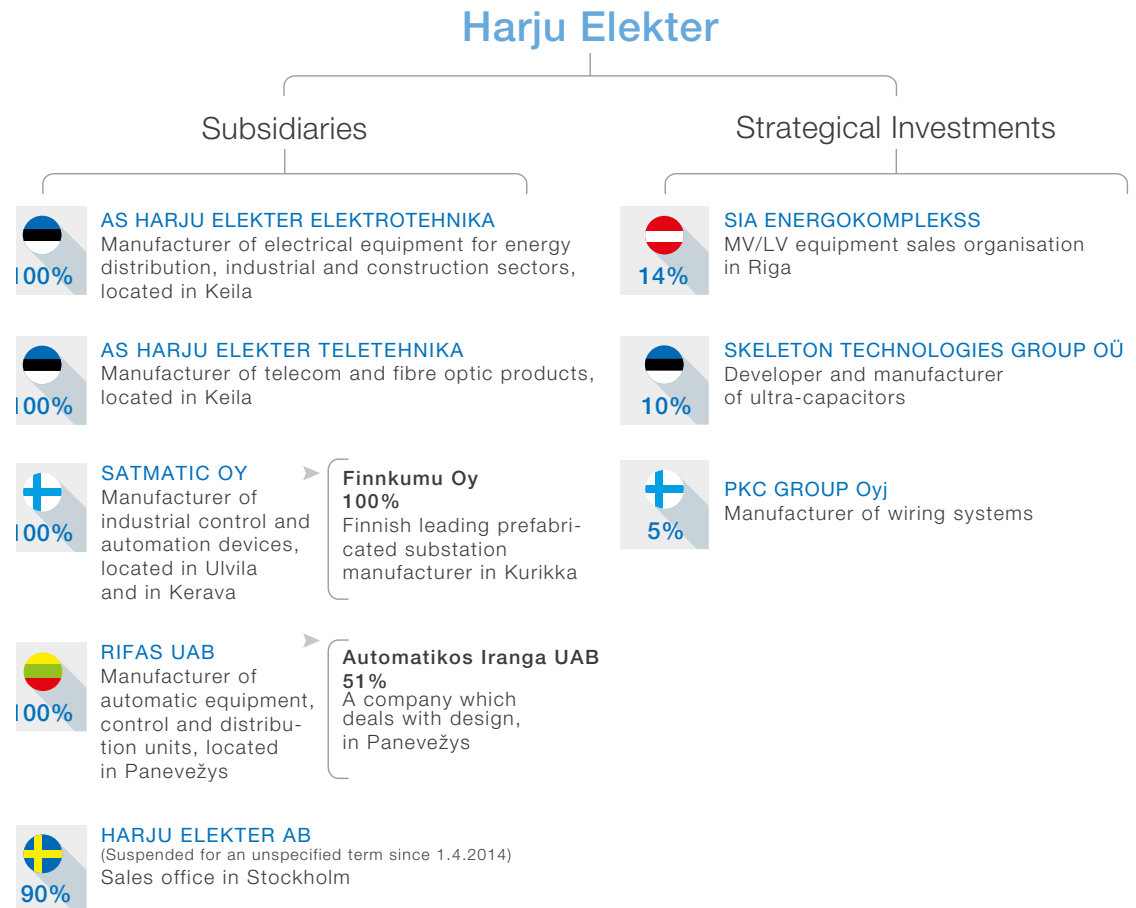
AS Harju Elekter have been manufacturing electrical equipment since 1968. The Group's main income comes from energy distribution equipment (substations, cable distribution and fuse boxes) and automatic control boards for the energy sector, industry and infrastructure. 77% of the products are marketed 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

In 2015, the economic growth was slow or slowing down almost everywhere in the world. Inflation and interest rates had dropped to near zero. Developed countries struggled with the uncertainty and the low level of investment readiness proceeding from it. The economic growth in China slowed down to less than 7%. At the same time, the US economy started to recover and its central bank decided in December to raise, for the first time in ten years, the base rate. However, the central banks in Europe, Japan and China continued to stimulate the economy. The uncertainty was increased by the geo-political tensions in Middle East, as well as by the price of oil that has dropped within the last two years from a level of 98 dollars to 35 dollars a barrel. The drop in the price of oil has complicated the internal situation in Russia at a time when the refugee crisis in Europe has caused lots of political tensions. The global economy was also influenced by the strengthening of the US dollar whose rate against the euro increased within the year by 10%. The level of inflation remained the lowest of the last decades.

## Euro area

All in all, the year 2015 was relatively good for the world's third largest economic union. Events and challenges of the previous years had a continuous effect on it, but thanks to the cheap currency, alleviation of debts related problems and the central bank's incentives the situation in the euro area has improved. The growth of GDP remained at the level of 1.6% in 2015. The economy was driven by private as well as public sector consumption. Despite the weakness of the euro which increased the competitiveness of the euro area, exports were hindered by the slowdown in world trade. The economic growth was also helped by a much healthier banking system, an increase in real wages triggered by lower energy prices and the improvement of customer insurance in countries that had gone through hard times in previous years. Interest rates and inflation remained exceptionally low.

The growth of GDP remained at the level of 1.6% in 2015

## Estonia and the Baltic countries

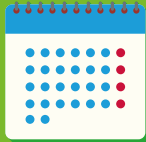
The drivers of economic growth in the Baltic States have been broadly the same: domestic demand, support from the EU, increased productivity of the workforce and foreign trade. Estonia's economic growth in 2015 was 1.2%, the Latvian and Lithuanian economies grew by 2.5% and 1.7%, respectively.

Estonia's economic growth was substantially slower than expected and according to the preliminary estimations of the Statistics Estonia the GDP of Estonia increased by only 1.2% in 2015. The situation was worse only in Finland and Greece. The Estonian economy increased mainly thanks to the domestic consumption. Exports formed 80% of the Estonia's gross domestic product which means that the economy is depending directly on the well-being of its trade partners and the international competitiveness of its exporters. Despite the high employment rate and the increase in wages, the domestic demand could not compensate for the weak foreign trade and the lack of business investments of businesses. The situation where the global trade has slowed down is not beneficial for countries with open economy. The economies of two export countries that are very important for Estonia i.e. Finland and Russia have experienced serious difficulties during the last years. The economic growth of Estonia's most important export

partner, Finland, was jeopardised by the structural changes in its economy, the reduced competitiveness of its cost level and the decrease in the number of labour force. The growth of GDP in Estonia was hindered mainly by meagre exports and remarkably reduced amount of investments. Although the interests on loans are at the unexceptionally advantageous level, the external environment today is not secure enough for entrepreneurs to initiate large projects and, thus, neither they, nor the state, has made any large investments. The sales revenue of enterprises was decreasing all through the year 2015. However, wage demands increased rapidly in a market which is governed by diminishing labour force.

As to the economic sectors, the slowdown of investment has influenced construction companies more than anybody else. The exports to Russia have been influenced by its political opposition to the European Union and, therefore, Estonia's exports to Russia have decreased almost by 40%. This has had a negative effect on the transit sector, as well as putting Estonian agricultural producers in a difficult situation. The processing industry's production of electronic equipment decreased considerably and the chemical industry was facing difficulties due to the low price of oil.

The GDP  
of Estonia  
increased by  
1.2% in 2015



# YEAR 2015

› **Finnkumu Oy, part of the Harju Elekter Group, was the second company in its region to be awarded the Entrepreneur of the Year Title by the Entrepreneurs of South Ostrobothnia.** Previously, in 2013, Finnkumu Oy was also named the Entrepreneur of the Year for Kurikka and has received a national acknowledgement for the growth in its sales revenues and its strong economic performance. Finnkumu Oy launched operations in 2004 and has been part of the Harju Elekter Group since 2014. Over the past 5 years, Finnkumu's sales revenues have more than doubled.

› **In April AS Harju Elekter signed a contract to purchase all the shares of Rifas UAB, its Lithuanian subsidiary.** Acquiring all the shares of Rifas UAB was a strategic decision of the Group, thereby ensuring its positions in Lithuania and the export markets. The company is going to proceed under its own name and brand as a 100% subsidiary of AS Harju Elekter.

› **In June the newly completed production building in Allika Industrial Park, owned by AS Harju Elekter, was delivered to the lessee (OÜ Eccua).** Allika Industrial Park, with its attractive location at the intersection of the Paldiski highway and Tallinn ring road, has a total of 18 lots fitted with technological utilities. Currently there are two production companies operating in the industrial park.

› **At its 2 June 2015 sitting, the Supervisory Board of AS Harju Elekter decided to approve a strategic investment in Skeleton Technologies Group OÜ,** a company developing and manufacturing ultracapacitors, by acquiring a 10% holding in the company. AS Harju Elekter sees the attractiveness of the investment in both an increase of its value as well as the possible participation of the company in the development, production and use of modular systems of ultracapacitors in management and switching systems.

› **In 2015, the management systems of the subsidiaries in the Group underwent recertification to meet the ISO 9001:2008 and ISO 14001:2004 requirements,** whereupon relevant certifications were issued for new terms of validity as follows: AS Harju Elekter Elektrotehnika, through 15 September 2018; Satmatic Oy through 19 July 2018; and Rifas UAB, through 15 September 2018. In addition, the Lithuanian subsidiary was also recertified to meet the OHSAS 18001:2007 standard and was issued with a new certificate valid for 3 years on 17 December 2015. Scheduled annual audits were conducted at AS Harju Elekter Teletehnika.

› **There were 44 employees participating in the share option programme of 2012–2015 targeted at the members of the governing bodies of the group's companies, its top specialists and engineers, as well as the members of the governing bodies of the affiliates of AS Harju Elekter,** with a total of 339,880 shares being subscribed for between 16–30 June. This increase in the share capital of AS Harju Elekter was entered to the commercial register on 22 July 2015, after which the share capital of AS Harju Elekter amounting to 12.42 million euros was divided into 17,739,880 ordinary named shares.

› **In August, the electrical materials store of AS Harju Elekter Commerce Group opened its doors at its new modern commercial and storage facilities** at Paldiski Rd 35, Keila. The good location and larger facilities create substantially better opportunities for customer service, make it possible to expand the product range and selection and the prompt release of batches of products.

› **The Group's subsidiaries actively participated in exhibitions and fairs in Estonia, Finland, Germany and Sweden, including in the biggest electricity sector trade fair in the Nordic region – Elfack 2015.** There was presented to the visitors a prototype of a LV converter device for a substation with power management capacity, developed in cooperation with the Tallinn University of Technology.





In 2015 as well as in 2016 AS Harju Elekter Elektrotehnika (in co-operation with Siemens Oy) provided the construction site for the Hanhikivi Nuclear Power Station with several tailor-made HEJA type substations.



# BUSINESS RESULTS

## 5 years financial summary

Group	2015	2014	2013	2012	2011
<b>Statement of profit or loss (million EUR)</b>					
Net sales	60.7	50.6	48.3	52.8	46.7
Operating profit	3.3	2.2	1.7	2.0	2.0
Profit attributable to owners of the Company	3.2	9.7	5.2	3.5	2.8
<b>Statement of financial position at the end of the year (million EUR)</b>					
Total current assets	19.8	25.1	15.9	16.5	15.4
Total fixed assets	46.7	44.7	55.2	43.1	37.5
Total assets	66.6	69.8	71.1	59.6	52.9
Equity attributable to owners of the Company	58.1	58.5	62.5	48.8	40.3
Equity ratio (%)	87.2	83.8	87.9	81.8	76.2
<b>Rates of growth (% , y-o-y)</b>					
Net sales growth	19.9	4.8	-8.5	13.1	14.2
Operating profit growth	47.1	27.8	-11.5	-2.7	33.3
Profit attributable to owners of the Company growth	-67.1	87.9	46.8	26.8	27.6
Assets growth	-4.6	-1.8	19.2	12.7	-4.0
Equity attributable to owners of the Company growth	-0.7	-6.4	28.1	21.1	-8.3

Group	2015	2014	2013	2012	2011
<b>Performance indicators (%)</b>					
Operating margin	5.4	4.4	3.6	3.7	4.3
Net margin	5.3	19.3	10.7	6.8	6.3
Return of assets (ROA)	4.7	13.8	7.9	6.3	5.1
Return of equity (ROE)	5.5	16.0	9.2	7.9	6.6
<b>Shares (EUR)</b>					
Average number of shares (1000 pc)	17,551	17,400	17,400	17,093	16,800
Equity per share	3.32	3.55	3.20	2.61	2.51
The closing price	2.63	2.79	2.70	2.64	2.28
EPS	0.18	0.56	0.30	0.21	0.17
P/E	14.61	4.98	9.00	12.57	13.41
Dividend per share	<sup>[1]</sup> 0.05	0.15	0.10	0.09	0.07
<b>Liquidity ratio</b>					
Current ratio	2.8	2.8	2.3	1.8	1.8
Quick ratio	1.9	1.9	1.4	1.1	1.0
<b>Personnel and remuneration</b>					
Average number of employees	472	459	455	452	427
Number of employees at the end of the period	470	483	451	478	457
Wages and salaries (million euros)	9.7	9.2	8.6	9.1	7.7

<sup>[1]</sup> Management's proposal

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

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



In the 2015 annual report the financial indicators of AS Harju Elekter (the consolidating entity) and its subsidiaries: AS Harju Elekter Elektrotehnika, AS Harju Elekter Teletehnika, Satmatic Oy, Finnkumu Oy, Rifas UAB and Automatikos Iranga 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 27 April 2015 AS Harju Elekter acquired a holding of 37% in their subsidiary Rifas UAB, in addition to the previously acquired 63%, and became the sole owner of the company.

AS Harju Elekter has a share of 4.6% in the Finnish company PKC Group Oyj. The company's shares are noted on the Helsinki Stock Exchange. 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.

## Earnings and margins

### In 2015

the consolidated  
**SALES REVENUE** **60.7** million euros

having increased by **10.1** million euros or by **19.9%** in relation to the comparable period.

The Group's  
**OPERATING PROFIT** **3.3** million euros

having increased by **1.1** million euros or by **47.1%** in relation to the comparable period.

### OUT OF THE CONSOLIDATED NET SALES WAS CONTRIBUTED BY THE

**ESTONIAN** companies    **FINNISH** companies    **LITHUANIAN** companies

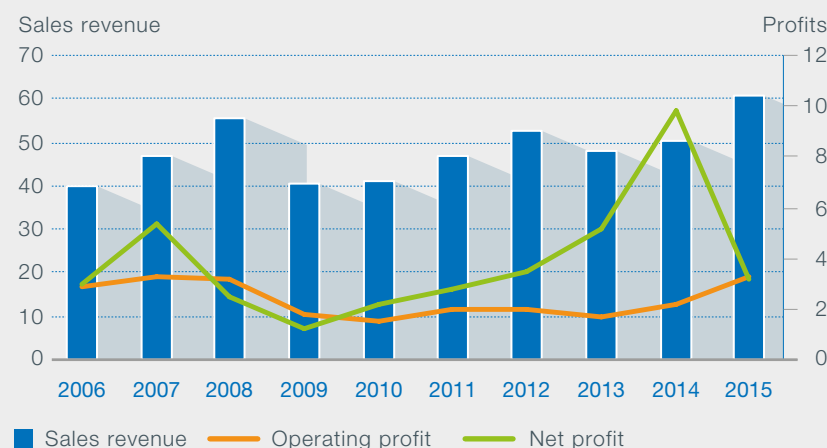
**33.9%**  
(2014: 39.8%)

**52.2%**  
(2014: 50.2%)

**13.9%**  
(2014: 9.9%)

### Sales Revenue, Net and Operating Profits

million euros



As to the markets, once again the **Finnish** and **Estonian markets were dominant** with **87.5%** (2014: 88.2%) of the Group's products and services sold there.

During the year, 23.5% (2014: 30.0%) of the Group's products and services were sold on the Estonian market. Year on year, supply to the Estonian market decreased by 1 million euros or 6.5%. The decline was mainly caused by decreased investments in the energy distribution sector in Estonia starting from 2014, which has resulted in a decrease in sales volumes for medium voltage distribution equipment and substations. A difficult situation on the Estonian market has given an incentive to find opportunities on other markets.

Finland has growing the biggest market of the Group; 64.1% of the Group's products and services were sold on the Finnish market (2014: 58.2%). Sales to the Finnish market grew by 9.4 million euros, year on year. A biggest 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, 2014.

76.5% of the Group's products and services were sold outside Estonia (70.0% in the reference period).

Sales to the Lithuanian market have decreased from year to year. The decline of the Lithuanian market is due a change in the Lithuanian subsidiary's sales strategy, as a result of which the main focus is on export markets. In the reporting year, the share of foreign markets in the subsidiary's sales revenues grew to 93% (2014: 81%). Sales to the Norwegian market in the reporting year have grown 2.3 times or by 2.2 million euros, to 3.9 million euros, as a result of which the share of the Norwegian market in the consolidated revenue has grown by 3.1 percentage points, to 6.4%. The growth of the Norwegian market is related to the materialisation of successful projects for the Lithuanian subsidiary. Of the Lithuanian company's 2015 revenue, 45% (2014: 31%) was earned on the Norwegian market. In addition, the company has grown the volume of its sales to the Finnish market. In 2015, the company sold its Finnish clients outside the Group products worth 1.3 million euros more than in 2014.

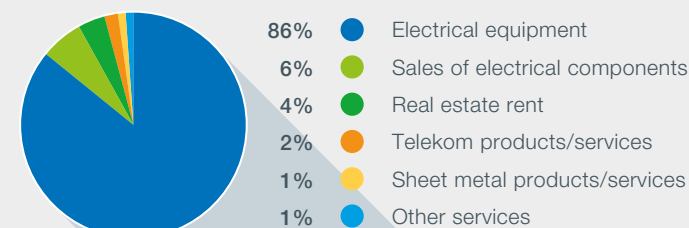
Sales revenue from other markets grew by 1.3% up to 1.7 million euros during the year. Sales volumes increased in Latvian as well as in French markets; USA and Spain accrued as a new markets.

The Group's main area of activity is the production and marketing of electric power distribution and transfer equipment. As usual, these activities made up the largest part of the consolidated revenue, i.e. 91.6%; real estate and other activities accounted for 8.4%.

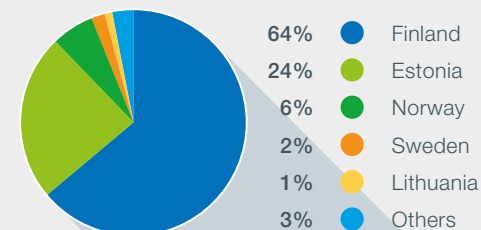
There has been a growth in revenue among almost all products and services. 86.0% (2014: 84.7%) of the reporting year revenue originated from the sale of electrical equipment, increasing more than one fifth up to 52.1 (2014: 42.9) million euros. The intermediary sale of electric goods has increased by 18.6% by a year, amounting to 3.7 (2014: 3.1) million euros. The rental income has remained at the same level as the previous year, amounting to 2.1 million euros.

## Sales Revenue

### By business area



### By market



Cost of products and services sold increased by 21.3% during the year, remaining 1.4 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 10.3 (2014: 9.1) million euros. In comparison to the reference period, the gross profit margin drop by 0.9 percentage points with the year, amounting to 17.0%.

The Group's distribution costs in the reporting year as well as in reference period were 2.7 million euros. The ratio of distribution costs to revenue was 4.4% (2014: 5.4%). General administrative expenses increased by 7.3% to 4.3 million euros during the year. The ratio of general administrative expenses to revenue was 7.2%, having decreased by 0.8 percentage points.

As at the reporting date on 31 December, there were 470 people working in the Group, which were 13 employees less than a year before. Due to the optimisation of their production and a decrease in their production volumes, the Estonian companies had reduced the number of their staff by 38 as at the end of the reporting year. At the same time, the number of employees in the Lithuanian subsidiaries has increased by 27. In the 12-month period, labour costs increased by 4.4%, amounting to 12.6 million euros. The ratio of labour costs to sales revenue was 20.7% (2014: 23.8%). In 2015, employee wages and salaries totalled 9.7 (2014: 9.2) million euros. The average wages per employee per month amounted to 1,712 (2014: 1,669) euros.

Overall, the growth rate of operating expenses lagged behind that of sales revenue, increasing by 18.8% to 57.4 million euros during the year. In the reporting year, EBITDA as well as EBIT increased both by 1.1 million euros, to 4.8 million euros and 3.3 million euros, respectively. Return on sales before depreciation for the 12-month period improved by 0.5 percentage points, amounting to 7.9%, and return of sales by 1 percentage points, amounting to 5.4%.

Dividend income in the reporting period was 0.77 (2014: 0.91) million euros and total financial income in 2015 amounted to 0.8 (2014: 5.7) million euros.

In 2014, financial income from selling the PKC Group Oyj shares was 4.6 million euros. At the same year, the Group sold its 34% holding in AS Draka Keila Cables also; the financial income from selling the shares was 1.8 million euros. Until June 30 2014, the Group consolidated a profit of 0.8 million euros from the associated company.

Income tax expense in 2015 was 876,000 (201: 675,000) euros.

The consolidated net profit of the reporting year was 3.2 (2014: 9.8) million euros. EPS was 0.18 (2014: 0.56) 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 1.24 euros and closed at 16.23 euros (2014: decreased by 6.72 euros to 17.47 euros). Other comprehensive loss from the revaluation of financial assets amounted to 1.4 (2014: 7.4) million euros in the reporting year. 4.6 million euros of revaluation profit were earned from the sales of shares of PKC Group Oyj. As a whole, the revaluation reserve in the owner's equity decreased by 1.4 (2014: 12.0) million euros.

## Financial position

**AT THE END OF REPORTING PERIOD THE TOTAL ASSETS CONSISTED OF THE FOLLOWING:**

CURRENT ASSETS	FIXED ASSETS	FOREIGN CAPITAL	EQUITY
30%	70%	13%	87%
(2014: 36%)	(2014: 64%)	(2014: 14%)	(2014: 86%)

As of 31.12.2015 the value of assets of the Group amounted to 66.5 million euros which was 3.2 million euros less than a year before. Current assets decreased during the year by 5.3 million euros, of which inventories 1.0 million euros and cash 4.3 million euros. The value of fixed assets in the statement of the financial position increased within 12 month by a total of 2.1 million euros, amounting to 46.7 million euros.

Most of the changes in the fixed assets derived from the changes in other long-term financial investments. During the reporting period new financial assets were obtained for total value of 2.4 million euros. However, the market price of PKC Group Oyj shares decreased during 12 month by 1.24, costing on the last trading day of the Helsinki Stock Exchange 16.23 euros against 17.47 euros a year ago. Other comprehensive losses from the revaluation of financial assets amounted to 1.4 million euros, by which the value of financial investment in fixed assets and the revaluation reserve in the owner's equity decreased. The value of long-term financial investments increased by 1.0 million euros, amounting to 20.2 million euros.

The value of investment property and property, plant and equipment increased by a total of 0.9 million euros. During the reporting period 1.4 (2014: 0.8) million euros were invested in real estate, most of which was spent on completing the construction of the production building of the Allika Industrial Park located in Saue municipality. Property, plant and equipment were purchased for 1.0 (2014: 0.8) million euros, of which 0.6 million euros were spent on the purchase of machinery.

In 2015 the Group's investments in fixed assets amounted to 4.9 million euros (2014: 6.8 million euros, incl. 4.9 million euros were made through business combinations).

By the end of the year interest-bearing debt obligations amounted to 1.2 (31.12.2014: 1.1) million euros, with short-term obligations making up 0.3 million euros in the reporting years, as well as in the reference year of 2014.

As at 31.12.2015, interest-bearing debt obligations formed 14.4% of the Group's liabilities and 1.8% of the cost of assets. As at 31.12.2014, these figures were 11.0% and 1.6% respectively.

As at the reporting date, the Group's liabilities totalled 8.4 million euros, of which short-term liabilities made up 7.5 million euros. The Group's liabilities decreased by 1.6 million euros with the year, including trade payables and other payables by 0.9 million euros, reaching 6.0 million euros. Long-term liabilities decreased by 0.6 million euros, amounting to 0.9 million euros.

During the year, the equity of the Group decreased by 1.6 million euros, including non-controlling interest by 1.2 million euros and amounting to 58.2 million euros by the end of the year.

In the reporting year, net cash from operating activities was 4.3 (2014: 2.8) million euros.

During the reporting year, a total of 3.3 million euros was paid for financial investments. The Group acquired a 10% holding of Skeleton Technologies OÜ, which is a company developing and manufacturing ultracapacitors, and paid the complementary part of the payment for the shares of Finnkumu Oy (see note 32). A total, net cash used in investing activities was -4.7 million euros in 2015, while in 2014 the total amount of 5.6 million euros was received.

In June 2015 a total of 0.8 million euros was received for the issue of shares. The 12 months' payment of finance lease principal amounted to 0.3 (2014: 0.3) million euros. In 2015, the Group paid dividends of 2.7 (2014: 1.8) million euros. On April 27, AS Harju Elekter purchased in addition to its 63% holding in its subsidiary Rifas UAB another 37% of the company, paying 1.7 million euros for it (note 32). All in all, net cash used in financing activities was -3.9 (2014: -2.5) million euros.





Following the Ellevio AB requirements AS Harju Elekter Elektrotehnika developed two new substations (1x800kVA and 2x800kVA) with metal enclosure that can be serviced from the outside and allow the installation of the transformer in the factory, decreasing the volume of work on site.

2x800kVA substations passed type testing successfully in Poland.

In 2015 the Group's Estonian and Finnish subsidiaries delivered all together 1500 pre-fabricated substations with sheet metal or concrete enclosures for the domestic and neighbouring markets.



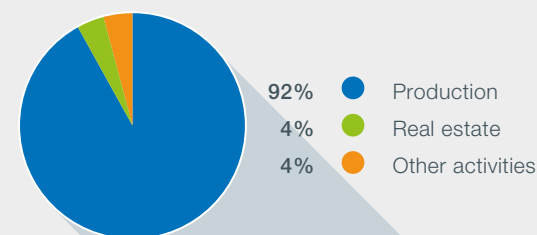


# BUSINESS SEGMENTS

As of 31 December 2015 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 has during the last years (including 2015) remained below the essential 10% and, therefore, it was recognised as within the composition of other fields of activities.

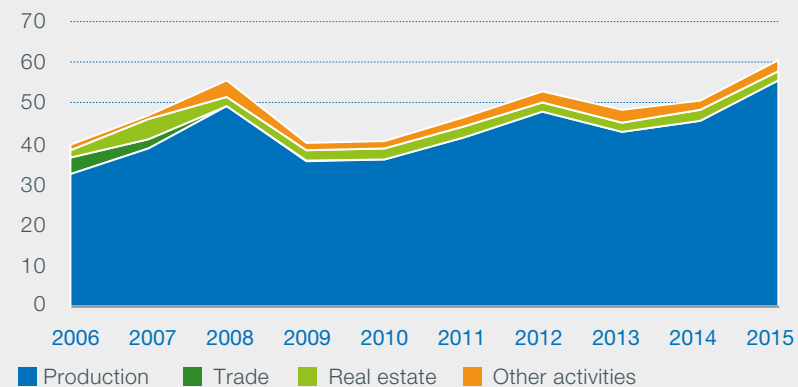
## Sales Revenue

By business segment



## Revenue of Business Segments

million euros



## 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 electrotechnical sector, also belongs in this segment.

In 2015 production gave 91.6% (2014: 90.5%) of the consolidated sales revenue. The segment's volume of sales decreased within a year by 21.3% amounting to 55.6 million euros.

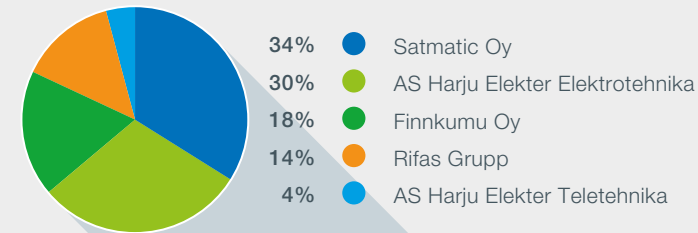
### AS Harju Elekter Elektrotehnika

**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 m<sup>2</sup> of production, warehouse and office premises. The number of employees is 168, incl. 32 of them working in sales and R&D.

The year 2015 was not as successful as expected for Harju Elekter Elektrotehnika because of the business recession in the EU countries and high global business risks (Russian/Ukrainian conflict, refugees, etc.) and despite the implementation of a wide range of austerity measures the targets that had been set were not achieved. The increase in sales volume was hindered by the cancellation of several investments on the domestic markets, and the economic stagnation of Finland, the companies largest export market. On the positive side the growth of the Swedish economy should be highlighted.

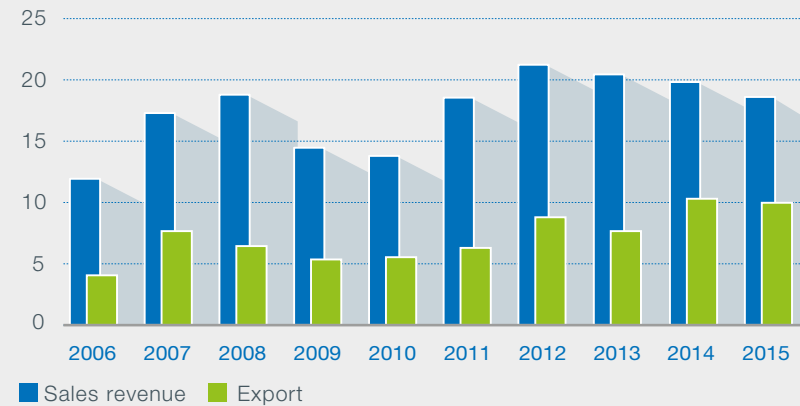
## Sales Revenue

By company



## AS Harju Elekter Elektrotehnika Sales Revenue

million euros



All in all, because of the drop in the amount of orders the sales revenue of AS Harju Elekter Elektrotehnika in 2015 was 7% less than in 2014, dropping to 18.5 (2014: 19.9) million euros. The share of exports in sales revenues was 54% (2014: 51%). The largest falls were caused by the decrease in orders for sub-stations for Estonian and Finnish key customers in the energy distribution sector which could neither be sufficiently compensated for by an increase in the number of orders for pre-fabricated sub-stations belonging to HEKA product family for Sweden, nor by the growth in the volume of orders for LV sector industrial products.

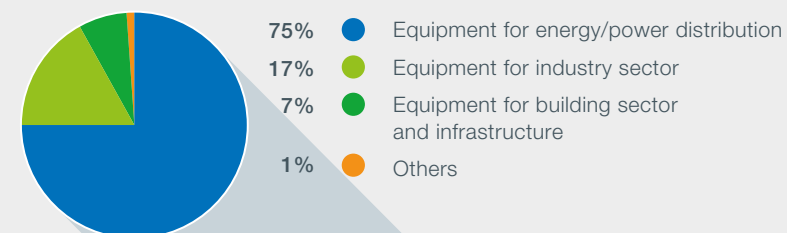
The reporting year was characterised by positive developments in the production and sales of equipment to the Finnish automatics sector and performance of large scale contracts in the domestic market that involved the manufacturing of high quality MV primary distribution units. A large scale contract for the design and manufacturing of electric equipment for the Fennovoima Hanhikivi nuclear power plant was concluded in 2015. As a result of successful negotiations preliminary contracts were concluded for the production of sub-stations for the plants in Sweden that will put the company a good position for expansion in that market, and also increasing our export opportunities.

During the whole year further development of products for the foreign energy and industrial automatics sector continued. The development priorities focused on the implementation of changes related to the amendments of the relevant directives (amendments to the Ecodesign Directive related to power transformers and the new Building Act) and on the elaboration of products for new export co-operation partners and successful performance of the relevant tests. New products or their prototypes were presented to customers and co-operation partners at several professional fairs, including the largest energy sector fair, Elfack 2015, in Sweden, as well as on special customer days. In addition, several customer visits and training days were organised within the company. Active co-operation continued in the fields of in-service training and product development with higher and vocational educational institutions, such as the Tallinn Polytechnic School, the TTK University of Applied Sciences, and the Tallinn University of Technology.

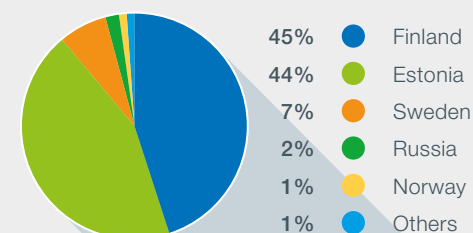
Due to the uncertainty related to the volume of orders, the company had to struggle to keep its costs under control, and ensure the quality of timely execution of project-based orders. Due to the changing market and increased competition, and in order to maintain and implement the objectives of the company during the next period, some adjustments were made to the company's strategic concept for the period of 2015–2019. On the basis of the business strategy co-ordinated with the Supervisory Board the preliminary functional strategies of sub-units with relevant action plans were prepared.

## AS Harju Elekter Elektrotehnika Sales Revenue

### Revenue by product group



### Revenue by market

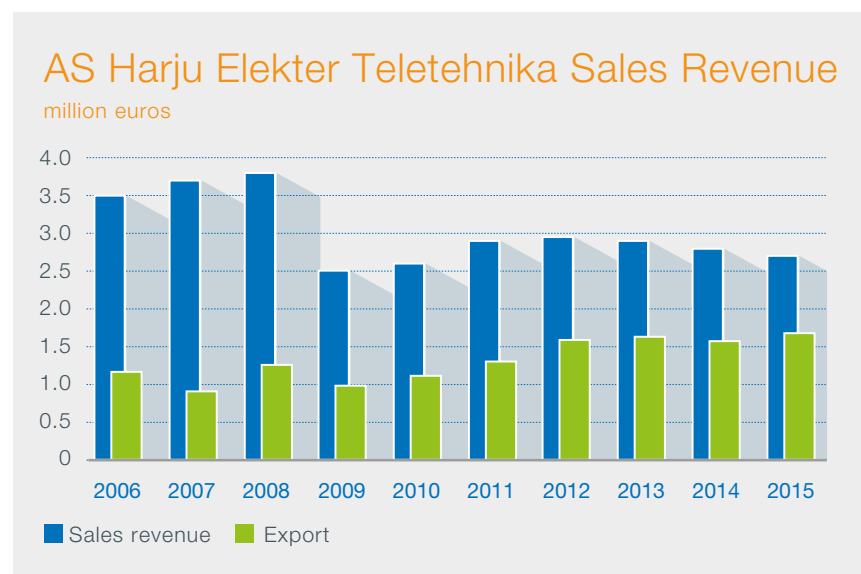


The plan for the improvement measures was also prepared and working groups for managing stocks, production failures and individual work performances were formed. The management of internal efficiency processes (5S, minimising of stock and analysis of failures) was continued. The review of the product portfolio and the cost-benefit analysis was started in order to focus on emerging sales and co-operation areas. Good results were achieved in the security of provision indicators and the recommendation index reflecting the customer satisfaction. The management structure was adjusted to the implementation of the new strategy of the company and changes in its administration.

### 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 61 people.

The year 2015 was a year of transformation for AS Harju Elekter Teletehnika with the rapidly changing economic and market situation. Since the company operates within the European single economic area and under the conditions of global competition all major political and economic events sooner or later affect its business. The company's sales revenue of 2015 remained practically at the same level as in the previous year, decreasing by 4.2% and amounting to 2.7 million euros. Domestic sales decreased by 19.9%, but the sales outside of Estonia increased by 8.6% and exports within the Group by 7.8%. The share of exports in the company's sales



revenue increased to 62.5%. Finland was the largest export country and data communication racks and their fittings were the largest export articles.

As to the product group, the leading position was held by telecommunication related products and services, amounting to 65.6%. It was followed by sheet metal products, industrial sub-contracting and the intermediate sale of goods and services and other products and services.

The sales revenue of the reporting year was influenced by the cancellation of several earlier planned projects, which was caused by unfavourable developments in the European markets. The increase in export sales was made possible thanks to the telecommunication segment, mainly through Swedish customers where the investments into the development of data communication networks by the telecommunication sector, focusing on the construction of new fibre optical data communication networks and modernisation of the existing ones stayed within the earlier planned long-term

project plans. Developments in other European markets, especially in Germany, were influenced by the acquisition of local mobile and cable network operators by global brands. As to other customer groups and product segments the instability of markets caused the decrease in the planned sales revenue and operating profit. The trend towards small-scale orders with a short delivery date continued, making the organisation and planning of production more challenging.

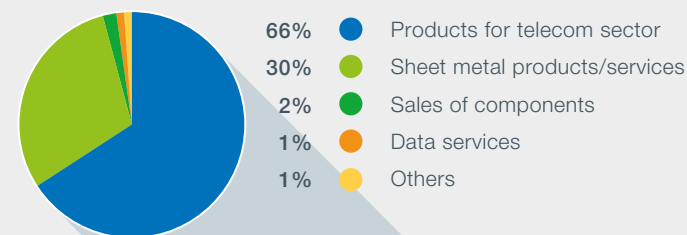
Several customer audits were organised at AS Harju Elekter Teletehnika in 2015, whereby customers evaluated the functioning of the company's processes and its ability to ensure product quality. Feedback from customer audits is crucial, as it helps the company to more fully understand the customers' needs and adjust its processes accordingly, in order to offer customers more and higher quality added value.

During the last financial year, the company presented its products at several fairs in Finland and Germany. The feedback gathered during fairs has helped to improve the functionality of products. Feedback on the specific demands of different markets was also gathered and this helps to offer more suitable products for each market. The company continued to improve the planning accuracy and increase security of supply. The development of the 5S programme helped to substantially reduce wastage, inefficiency and operations that did not add value.

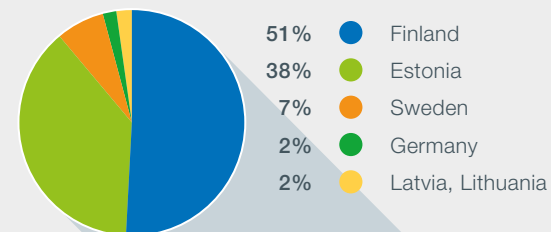
The keywords for AS Harju Elekter Teletehnika during the year 2016 will be the growth of sales, and the increase in productivity which constitute a precondition to the company's sustainability and boosting competitiveness. Due to the increasing competition it will be more and more important to offer distinct products with higher added value for a competitive price and offer them quickly and on time. In order to increase the sales revenue

## AS Harju Elekter Teletehnika Sales Revenue

### By product group



### By market



it is important to expand the customer base and develop new products. At the same time the company is actively researching opportunities to implement new technologies in the production process, in order to increase the competitiveness of the company and to be able to offer distinctive products. The year 2016 is important and special for AS Harju Elekter Teletehnika because in March it will celebrate its 45th Anniversary, operating 25 of those years as an independent company.



## Satmatic Group

**Satmatic Group consists Satmatic Oy with headquarters in Ulvila and its subsidiary Finnkumu Oy, located in Kurikka.**

In 2015, the Satmatic Group's sales revenue amounted to 31.7 million euros, growing by 25% during the year. There are 90 employees working in the Group.

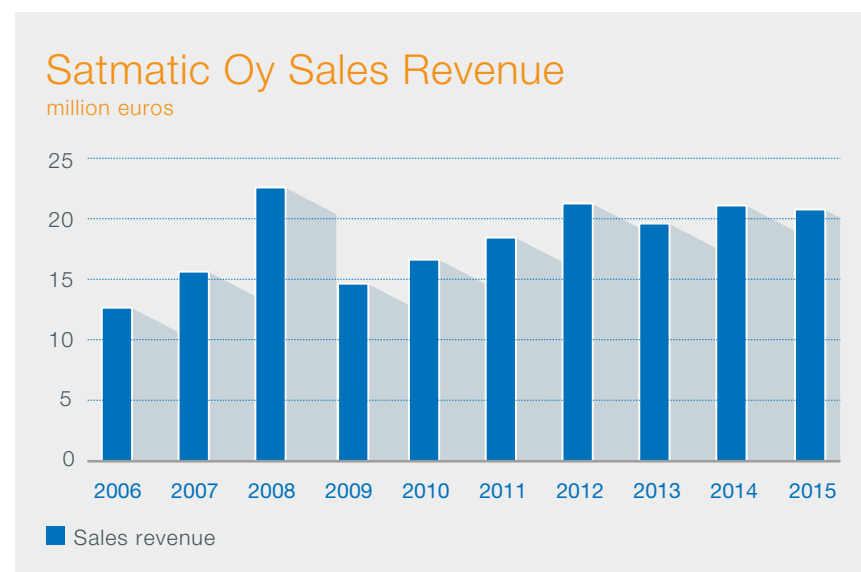
### Satmatic Oy

**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 Harju Elekter Group's companies 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 73 employees.

The unstable economic environment in Europe and the downturn in the Finnish export sector were also reflected in the 2015 sales revenue of Satmatic Oy. The sales revenue of the company decreased by 2.3% compared with the previous year, following the pace of decline in the export sector of the Finnish technology industry, dropping to 20.9 (2014: 21.4) million euros. Sales outside Finland either directly or through intermediaries accounted for 48% of sales revenue. However, the results of the company can be considered as satisfactory as it was still able to increase its project-based sale within the conditions of strong competition and to retain its position related

to the contract-based production. The only real decrease was faced in the power distribution sector.

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. In addition to that, the business of a company can be influenced by the improper competition and the appearance of imported power distribution equipment which is sold on at more advantageous prices. 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 business activities of the company are based on the competitive production, automation of production processes, high quality products and the clean environment. Their responsible and impressive contribution to environmental issues has caught wider attention and in 2015 Satmatic Oy was awarded a local environment prize. Besides that, the company concluded a co-operation agreement with the city that confirms the thoughtful approach of the company to climate issues and its determination to reduce the production of carbon dioxide by employing energy saving production methods and improving customer awareness of renewable energy products and sources, as well as the development and sales of electric car charging systems, which in turn contributes to the increase in the number of electric vehicles in Finland. Besides developing first-rate professional products/solutions, attention is also paid to valuing customer relations, as well as to 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.

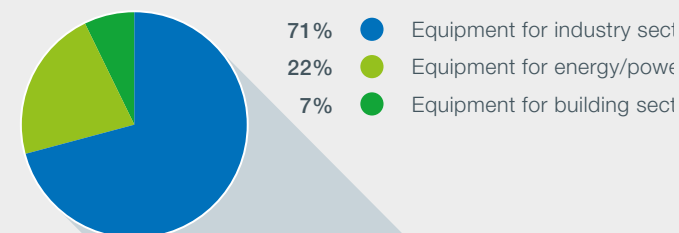
Pre-fabricated substations and distribution cabinets that are manufactured in the Ulvila plant of Satmatic Oy and in the Keila plant of AS Harju Elekter Elektrotehnika are sold to energy distribution sector, mainly to Finnish network operators and power and energy stations. On-grid and off-grid solar energy solutions proved to be the stand-out products in the renewable energy sector.

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. During the reporting year a new model of a slow charging system was developed.

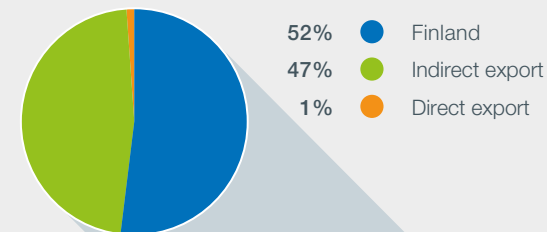
In 2016, the company's activities will be focused on finding new customers and more efficient involvement of wholesale and retail traders in the sales of substations, distribution and transfer equipment, as well as increasing on-line sales. To increase the sales of renewable energy products, heating switchboards for car parks and charging systems, these products will be made even more customer friendly. In order to further develop the organisation of the company, greater attention will be paid to intensifying the work of the development department and organising logistics more efficiently. 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.

## Satmatic Oy Sales Revenue

### By product group



### By market



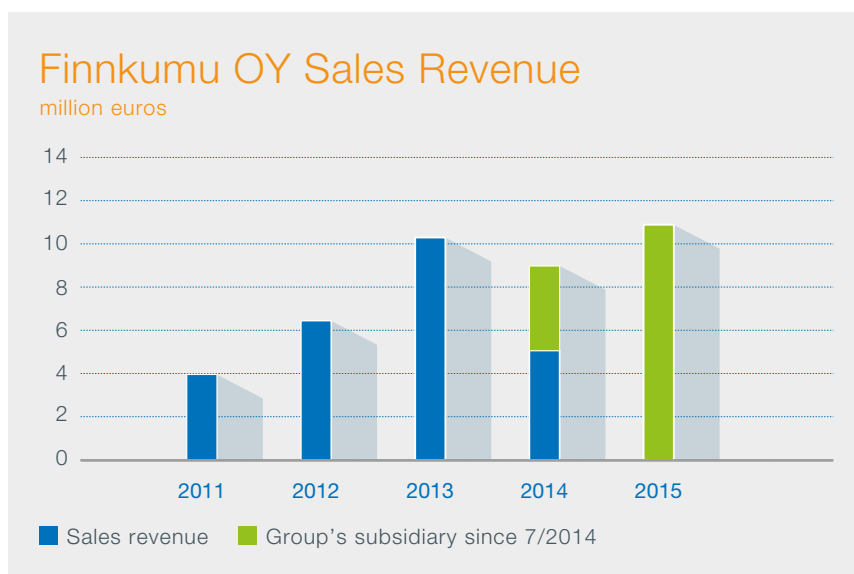
## Finnkumu Oy

**Finnkumu Oy is a wholly-owned subsidiary of Satmatic Oy and Finnish leading prefabricated substation manufacturer, involved in design, production and sale of electricity distribution devices,** mainly substations and distribution cabinets. Finnkumu Oy was founded in 2004 and has belonged to the Harju Elekter Group since 2014.

Finnkumu Oy has been very successful during the whole period of its existence. The sales revenue of the company has more than doubled during the last 5 years. Sales revenue continued its solid growth during the reporting year, increasing by 22% compared with the previous year and amounted to 11.0 (2014: 9.0) million euros despite some strong competition and increased input prices. The drop in the market price of sub-stations was compensated by the volume of sold products.

During its long period of existence the company has established a loyal customer base whose orders are fulfilled by a relatively small marketing team. Products are improved jointly and adjusted to the needs of specific projects. The production is organised through a strong and smoothly operating network of sub-contractors who deliver all the necessary details. The completion, final assembly and quality check is carried out by a staff of 20 who are employed at the company's plant in Kurikka.

Oscar Pro production management programme was introduced and implemented during the reporting year. The company hopes that in the future the new programme will help to make even more precise decisions based on more detailed information. In co-operation with other marketing teams of Harju Elekter Group's plants the company established a joint working group to promote sales. The working group aims to put together a representative range of products and best practices in order to strengthen customer relations through shared knowledge and skills.



The well-targeted and successful operation of the company has attracted wider attention. At the end of the reporting year Southern Nordic County Entrepreneurs awarded Finnkumu Oy with the title of the Best Company of the Year.

In 2016, Finnkumu Oy will continue producing of high quality prefabricated substations and distribution boxes. The success of the company is based on its close customer operation and impeccable quality of products. The business of the company is closely connected to the construction and modernisation of electric power distribution networks in Finland. The information available today allows us to believe that the amount of investments in the new reporting period will remain the same as in previous years.

## Rifas Group

**Rifas UAB is AS Harju Elekter's 100% owned Lithuanian subsidiary, which located in Panevežys. 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 company hires 101 employees. Rifas UAB's (51%) subsidiary, Automatikos Iranga UAB, is specialises in design.

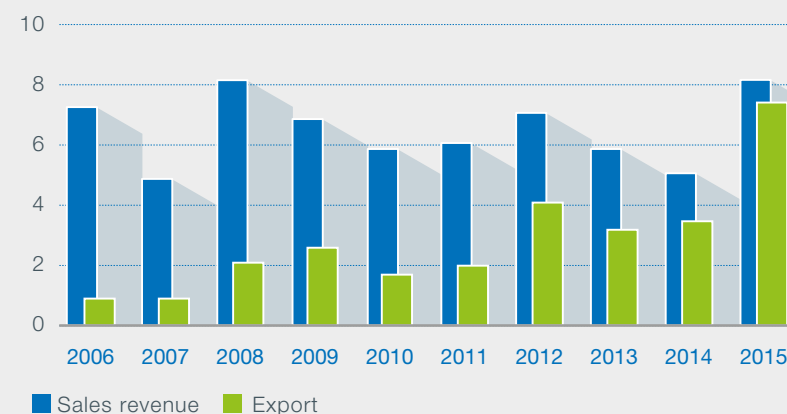
The year 2015 was full of changes and success for Rifas UAB. The sales revenue increased, amounting to 8.5 (2014: 5.3) million euros thanks to good marketing and a successful realisation of several projects. The increase in revenue was achieved thanks to the strategic decision made a year earlier to restructure the product portfolio of the company. During the reporting year Rifas UAB withdrew from the high risk business of being the main contractor in projects and concentrated, for the sake of its sustainable future, on its primary activities: the development, production and sales of MV and LV electric installations. Today, this decision has proved to be justified, making the year 2015 successful for the company.

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. Due to the insecure situation in the global economy, the competition between suppliers was very tough and the price pressure very strong.

According to the company's strategy and focal points in the fields of activities, the main emphasis was put on boosting the efficiency of the production processes and standardisation of the range of products. In order to increase its production capacity the company focused mainly on export

## Rifas UAB Sales Revenue

million euros



markets. The share of export markets in the sales revenue of the company increased during the reporting year to 93% (2014: 81%). Sales to the Norwegian market increased by 2.3 times i.e. by 2.2 million euros and amounted to 3.9 million euros. The increase in the Norwegian market was due to the completion of successful projects during the reporting year. All in all, the Norwegian market accounted for 45% (2014: 31%) of the sales revenue of the company in 2015.

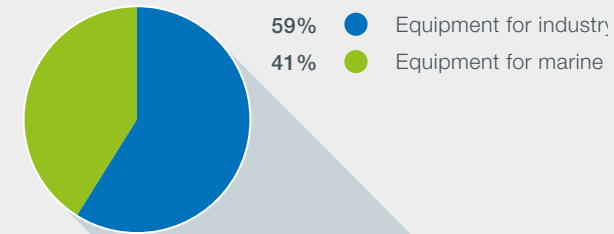
Long-term persistent efforts resulted in the conclusion of new important co-operation contracts with several foreign partners and the company is planning to continue such activities for finding new strong international partners and establishing partnerships with them. In order to do that the marketing department of the company was increased.

On 1 January 2015 Lithuania became a member of the euro area. The exchange rate was fixed at 1 EUR = 3.4528 LTL. The transition to the euro was successful thanks to the new financial and accounting software, as well as the preliminary preparations and tests. The company passed successfully the certification of management systems according to the requirements of ISO 9001:2008, ISO 14001:2004 and OHSAS 18001:2007 standards and new certificates that are valid until 2018 were issued to it.

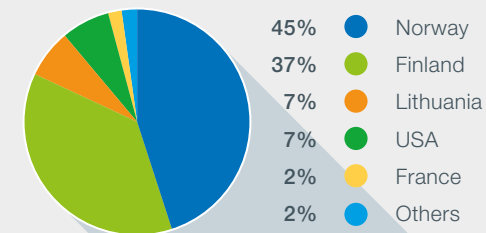
For the further development of the company the main focus will be put on the reinforcement of strategic relations with existing cooperation partners and on active marketing to find new customers and projects. The development of project based customer relations on foreign markets will continue.

## Rifas UAB Sales Revenue

### By product group



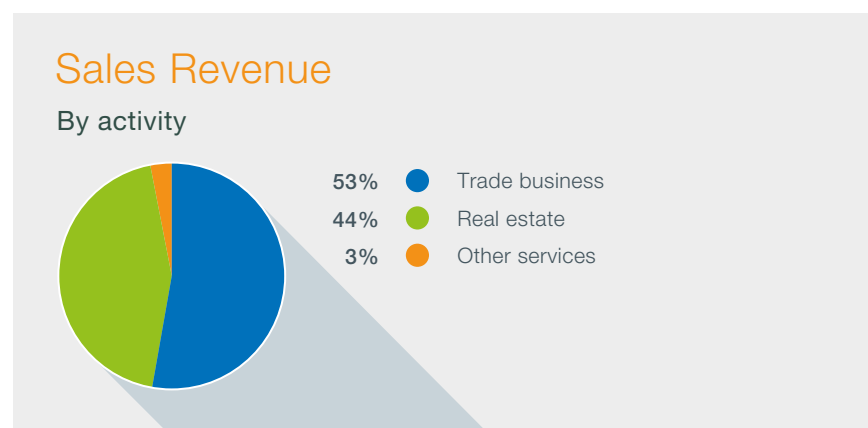
### By market





## 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) totalled 8.4% (2014: 9.5%) of the consolidated sales revenue, out of which intermediary sale of goods formed 53.1%, rental income 40.7%, intermediary sale of services 3.7%, and income from other products/services formed 2.5%.



### Real estate

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 2.1 million euros, accounting for 88.1% (2014: 89.3%) of the revenue of the segment. Utilities and other services totalled 11.9% (2014: 10.7%) of the sales revenue of the segment.

### Other activities

During the reporting period, the sales revenues of other non-segmented activities increased by 14.5% amounting to 2.7 million euros and forming 4.5% (2014: 5.1%) of the Group's sales revenues. The main revenue sources were the intermediary sale of products and the sale of Group's products (electrical equipment).

### AS Harju Elekter

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

The business activity of the Parent company gives 8.4% (2014: 9.5%) from the consolidated sales revenues.



In 2015, despite strong competition, Satmatic Oy was able to increase its project based sales.

Different kinds of electric, switch-board and power automatic equipment and solutions were developed on the basis of customers' orders for the pulp and paper industry, as well as the stone-wool, steel and food industry, offshore business and shipbuilding, mines and (electric) power energy stations.

The largest projects the Group was involved in were the talc mine in Finland and the stone-wool factory in Poland.





# OTHER FINANCIAL INVESTMENTS

In the reporting year, the market value of long-term financial investments decreased by 1.4 million euros, while new financial investments amounted to 2.4 million euros. The total annual increase in the balance value of financial investments was 1.0 million euros, amounting to 20.2 million euros.

## 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.

## Skeleton Technologies Group OÜ

At its 2 June 2015 sitting, the Supervisory Board of AS Harju Elekter decided to approve a strategic investment in Skeleton Technologies Group OÜ, a company developing and manufacturing ultracapacitors, by acquiring a 10% holding in the company. AS Harju Elekter sees the attractiveness of the investment in both an increase of its value as well as the possible participation of the company in the development, production and use of modular systems of ultracapacitors in management and switching systems.

## PKC Group Oyj

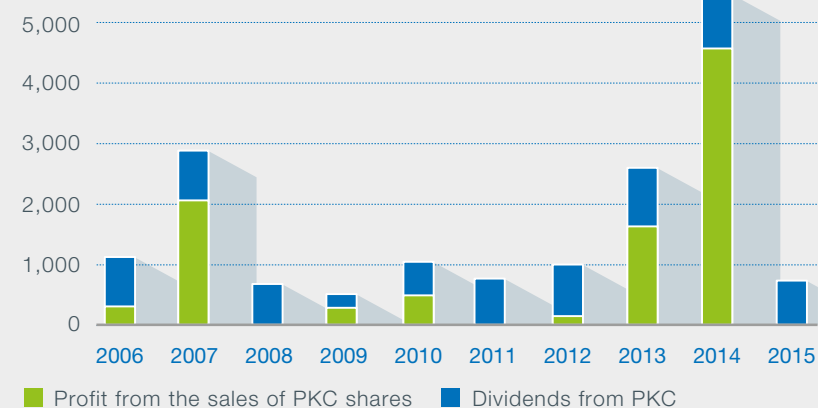
PKC Group Oyj (hereinafter PKC) is a Finnish publicly traded company, which manufactures cable insulation for the automobile, telecommunication and electronics industries. In 2015, sales revenue of PKC was 908.0 million euros and the Group employees 21,764 people.

PKC shares are quoted on the Helsinki Stock Exchange and AS Harju Elekter has 4.6% of PKC shares as at December 31, 2015. The market price of the shares decreased in 2015 by 1.24 euros and on the last day of trading the price of a share on the Helsinki Stock Exchange was 16.23 (2014: 17.47) euros. PKC shares are valued in the statement of the financial position 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 1.4 (2014: 7.4) million euros, by which amount decreased the cost of investment in assets and reserves in equity.

In April 2015, PKC Group Oyj paid dividends to the shareholders 0.70 euros per share. AS Harju Elekter received dividends in the amount of 766,000 (2014: 906,000) euros. The total financial income during 12 months was 0.8 million euros which is 4.8 million euros less than during the reference period of 2014 when, in addition to dividends, 4.6 million euros was earned for the sale of shares.

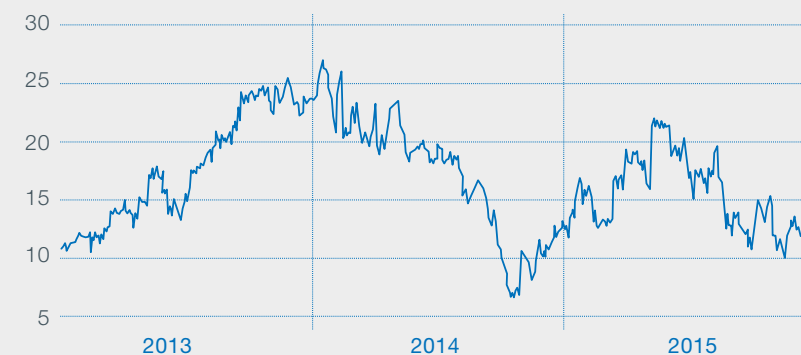
## PKC Group Oyj Profit Earned from Financial Investment

thousand euros



## Share of PKC Group Oyj in 2013–2015

eur



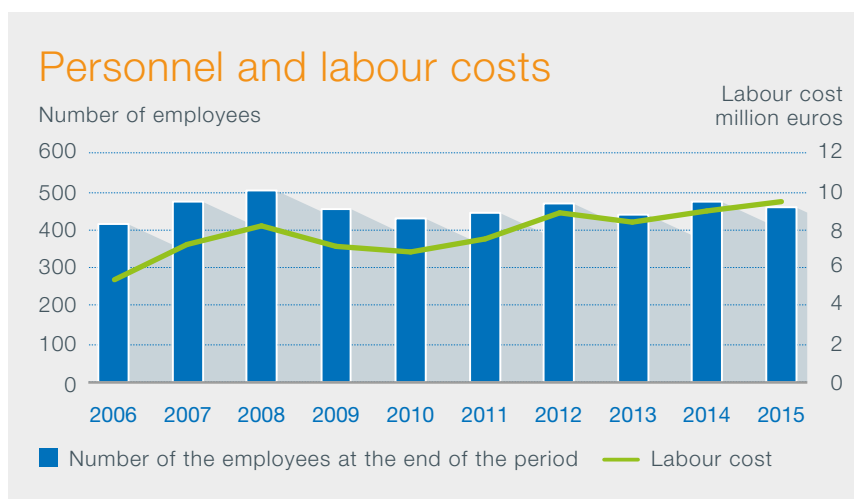




# PERSONNEL

The companies of the Harju Elekter Group are located in Estonia, Finland and Lithuania. In 2015 the labour market situation was complicated in the markets where the Group's companies were operating, just like the previous years. The unemployment rate in Estonia (2015: 6.2%), the same as in Lithuania, has been declining for several consecutive years. In Finland, the unemployment rate started to grow in the reporting year, amounting to 9.5% of the working age population by the end of the year, making the long-term unemployment a more serious problem. The structural unemployment has become a concern also in Finland just like in Estonia and Lithuania. The situation for the Group's companies is made even more complicated by the unattractive salary level in the business sector. In Estonia and Lithuania, the employers have difficulties finding high quality labour and it is aggravated by the movement of specialists to other countries. The shortage of highly qualified labour has created a constant pressure to raise salaries. Unfortunately, productivity has not kept pace with the rise in salaries. The labour policy carried out by the companies of the Group are more or less influenced also by the ageing of the population, the continuing fight for talents, the competition from richer countries for labour and refugee issues. In the future, those who are able to utilise the labour force in a more flexible manner will be more successful.

At the balance date, there were 470 (2014: 483) people working in the Group and the average number of employees was 472 (2014:459). Employee wages and salaries totalled 9.7 (2014: 9.2) million euros in the year 2015. The average wages per employee per month amounted 1,712 (2014: 1,669) 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 – 273 people – worked in Estonia, including 44 people who worked in the Parent company. At the end of the year, there were 90 people working in Finland and 107 in Lithuania. From 470 employees working in the Group 354 of them were men and 116 women, 114 of whom have higher education, 308 people have secondary or vocational secondary education and 48 have basic education. In order to improve the skills and qualifications of employees joint in-service training courses have been started in co-operation with higher and vocational educational institutions.

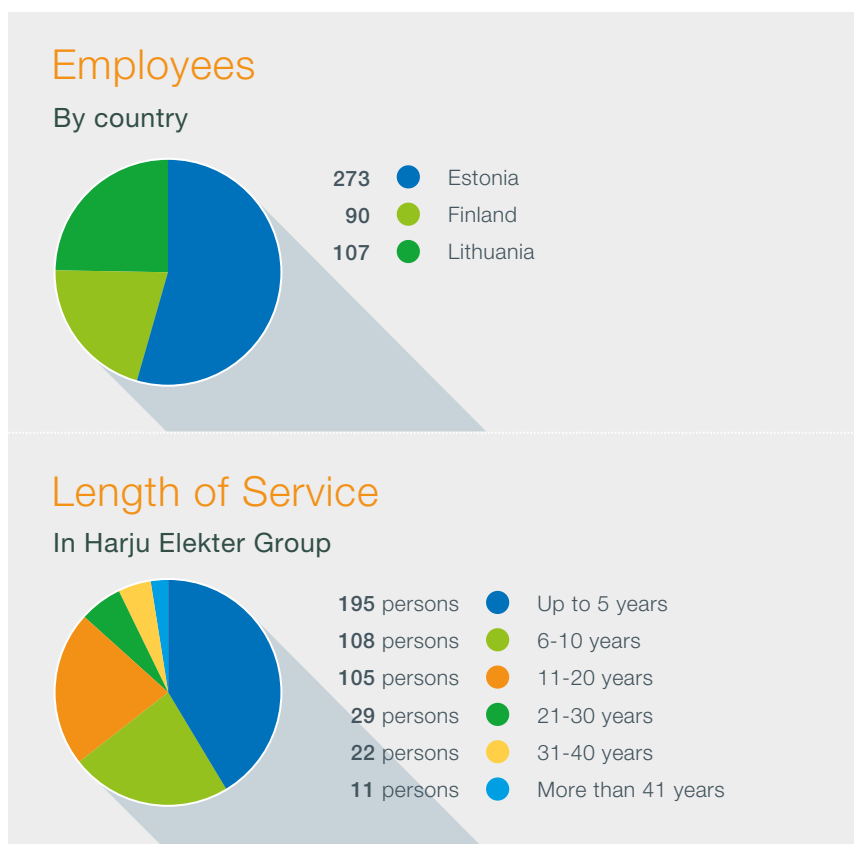
Harju Elekter Group is characterised by its solid organisational culture. The high percentage of long-term employees motivates newcomers to preserve and develop this culture. Every second employee has been working in the Group for longer than 5 years.

The average age of the Group's employees has remained stable, and was 42.3 years in the accounting year. To find new competent employees, AS Harju Elekter co-operates with universities and vocational schools which in summer use the companies of the Group either as their basis for vocational training or in the framework of in-service training or retraining programmes.

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.

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.

The companies of the Group continued to implement the measures that made the functioning of the organisation even more effective. In 2015, several structural changes in the management and organisation took place in AS Harju Elekter Elektrotehnika, resulting in the reduction of the number of employees by 30 people. In addition to that, at the end of the year salaries were reduced and people were sent on collective holidays due to the small number of production orders. In order to increase the productivity the qualification system of manufacturing employees was introduced at the end of 2014, 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 it is planned to apply this system to administrative personnel during the reporting year.



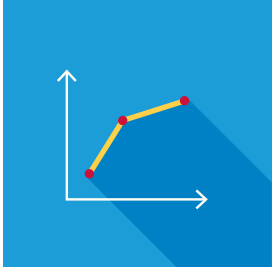
Exercises and training courses organised for employees during the year were mainly aimed at improving professional skills and qualifications. In the production units, activities continued in order to implement the 5S production model to reduce wastage, ineffectiveness and activities that do not add value. First aid courses are organised regularly for all the employees besides the training that is focused on the development of competences related to the main activities of the Group and professional qualifications of the workers.



## 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.

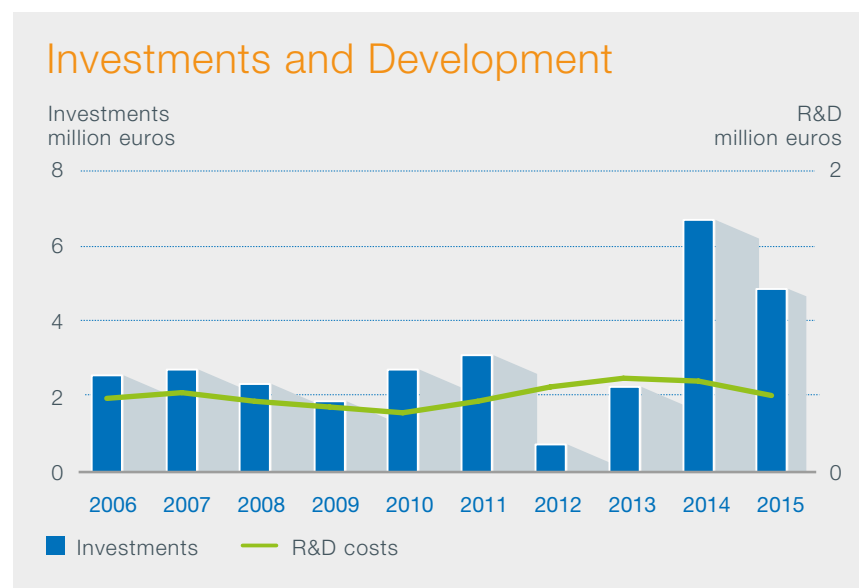


# INVESTMENTS AND DEVELOPMENT

In 2015, the Group investments to fixed assets totalling 4.9 million euros (2014: 6.8 million euros, incl. 4.9 million euros 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 renewable investment that is made to ensure that production premises and technology are kept up-to-date and comply with the quality requirements.

In 2015 several substantial information system developments were implemented. The security level of the internet and data communication networks of the Group, as well as the availability of business information systems were increased. The IT audits carried out during the reporting year offered a more realistic evaluation of the reliability of the network infrastructure and security solutions used by the companies. The development of the management and economic software, the further introduction of additional modules and the development of CRM and QlikView programmes were carried out in all subsidiaries. Preparations were started in the Group's Estonian companies for the upcoming renewal of the management and business software version in 2016. The Finnish companies focused on software integration. Finnkumu Oy introduced new economic software. The Lithuanian subsidiary was mainly focusing on the smooth operation



of the economic software caused by the introduction of the euro on January 1, 2015. Investments in the development of business software made during the reporting year totalled 99,700 (2014: 188,500) euros and investments in information technology equipment amounted to 129,600 (2014: 98,000) euros.

Work involving grants 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). In 2015, the assigned grants that amounted to 38,900 (2014: 15,400) euros were received mostly for the introduction of the new management and economic software in the Finnish subsidiaries.

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 2015 the development costs, at cost price, of the Group amounted to a total of 0.50 (2014: 0.60) million euros, accounting for 0.8% 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 Development Centre which pools the engineers from product development and technical departments consists of 13 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.

The year 2015 was diverse and interesting for the Estonian product development team. In co-operation with the Tallinn University of Technology

(TUT) and under the leadership of Marek Mägi (PhD, TUT), an electrical engineer at AS Harju Elekter Elektrotehnika, a prototype of a storage device for a substation with an energy management system capacity was completed and tested on a real micro-grid test bench at the TUT. The prototype device was presented for the first time at the largest Nordic electrical engineering fair, Elfack, in Sweden, and in order to introduce it properly an extensive and promotion campaign was organised in local (specialised) media that would ensure a wider coverage.

A significant part of the product development resources of the Keila Development Centre in 2015 was used to develop new innovations for substations. One of the most interesting of them is HEKA2VM800 which is a 2x800kVA substation with a metal enclosure that can be serviced from the outside. The huge advantage of the novel solution is that these substations can be moved together with the installed power transformers that allows a significant reduction to the volume of work necessary at the site and, consequently reduces the installation costs for customers. The anti-corroding concrete basements of the substations insure a long life for them. In autumn, the substation passed successfully the type testing of IEC standard, once again proving the high quality and technical level of the substations produced by Harju Elekter. The positive feedback of customers and the increasing number of orders show that there is enough demand for this type of substations in the market. By the end of the year the product development team of Harju Elekter completed the development of the new 1x1000kVA concrete substation that is serviced from the outside, complying to the ECO-design Directive. Its prototype was presented in spring at Elfack in Sweden. The design of the substation follows specifically the requirements and preferences of Nordic distribution networks. A wide range of different finishing designs is offered starting from different tones of brick and wood imitation surfaces. Having looked at the Swedish

The Group's success is based on strong and flexible product development

market a model of substation with concrete doors for a device space was developed.

Besides the above-mentioned products the company put a lot of energy into the development of a product family of air isolation MV substations. These products meet the needs of Nordic distribution networks who want to avoid the use of SF6 gas in their grid. During the 2015, 200kVA, 315kVA and 630kVA solutions were developed. In 2016 the final development of the product family will be continued by completing it with 800kVA and 1000kVA models. The initial feedback from customers has been very positive.

The Finnish 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 increasing the productivity and expanding the range of products thanks to introduction of a CNC punch press and a cable connector installation and cutting device. The Finnish subsidiary increased its sales of solar power equipment and services. It continued the development of heating switchboards for car

parks and charging systems for electric cars in order to make these products even more customer-friendly.

The Group's subsidiaries participated actively in professional fairs: In May, the subsidiary Harju Elekter Elektrotehnika participated in the biggest electricity sector trade fair in the Nordic region – Elfack 2015 – held in Gothenburg, Sweden. There, a substation unit devised by the company specifically based on the requirements of the Swedish market was presented to the visitors. We also unveiled a prototype of a LV converter device for a substation with power management capacity, developed in co-operation with the Tallinn University of Technology. In addition, the Group's subsidiaries actively participated in other regional exhibitions: in January, Group's Estonian and Finnish subsidiaries participated in the (energy) distribution network trade fair Sähköverkot in Finland. As usual, in September AS Harju Elekter Elektrotehnika participated at the SLO autumn fair in Tallinn and Satmatic Oy at Alihankinta in Tampere. AS Harju Elekter Trade Group presented its product range available in shops at the annual international building fair Estbuild in Tallinn.



# QUALITY MANAGEMENT AND ENVIRONMENTAL POLICY

A high quality business and management model is one of the assets of the 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 daily business operation and organisation of Group's subsidiaries 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 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. 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 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.

**The companies of the Group monitor and measure their environmental impact according to the environmental policy**

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. Satmatic Oy has a valid UL certificate, which is a prerequisite for selling the company's products on the US market.

Internal and external audits are carried out in the Group's companies at least once a year and recertification takes place every three years.

Its companies' operations are in accordance with quality and environmental management standards ISO 9001/2008 and ISO 14001, while the Lithuanian subsidiary's operations also comply with OHSAS 18001:2007 standard. In 2015 new compliance certificates for the next three years were issued to AS Harju Elekter Elektrotehnika, Satmatic Oy and Rifas UAB. In AS Harju Elekter Teletehnika the regular annual audit was carried out. Its recertification will take place in 2016.

## Certificates Issued to Harju Elekter Group Companies

	2009	2010	2011	2012	2013	2014	2015
Harju Elekter Elektrotehnika		○ ISO9001/ ISO14001 (since 2000)			○		○ up to 9/2018
Harju Elekter Teletehnika			○ ISO9001/ ISO14001 (sinces 2002)			○ up to 1/2017	
Rifas	○ ISO9001 (since 2003)		ISO 14001 OHSAS 18001	○			○ up to 9/2018 and 12/2018
Satmatic	○ ISO9001 (since 2003)		ISO14001	○			○ up to 7/2018
Finnkumu							

○ – recertification

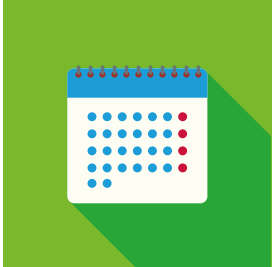




## Rifas and Vacon

have been working in drive systems engineering and manufacturing since 2006. Rifas and Vacon collaboration in enclosed drives has become a synonymous with high performance, reliability and short lead time while manufacturing drive systems.

In 2015, the largest system built for Vacon by Rifas is a 300 m drives system with more than 700 Vacon frequency converters in 26 line-up systems with current ratings from 1600A to 4000 A. The system was design, produces, tested, UL certificated and shipped to customer by Rifas within planned scope and budged. Rifas and Vacon R&D teams are working together on new projects and Technologies to succeed in a global market.



# CORPORATE TARGET FOR 2016

In its business the Harju Elekter Group builds on the Group's long-term development strategy. Decisions, whether short or long term, are guided by the Group's aim to be the best known and recognised producer of electrical equipment and automation devices in the Baltic and Scandinavian countries, manufacturing and delivering a highly professional range of products and comprehensive solutions in the segment of MV and LV products, using advanced technology and the best expertise available. The Group's activities derive from the concept of supporting our customers' and partners' interests and preferences in all our actions and decisions. The changing world adds an abundant amount of challenges and choices. We assume that the Group as a whole, its organisation and its subsidiaries are ready to continue their success story within the environment of the recurrent world and changing economic models.

The establishment of further activities and plans of the Group will be built on its strengths related to product development, learnt experience and expectations of customers, aiming to be open and attentive to everything new and changing. The priority of the Group is to focus on the main markets in Scandinavian countries, extend our trade sphere and to establish ourselves in the Group in other markets, by selling our products of industrial automatics and power distribution throughout the rest of the world.

The Group contributes daily to the development of energy-efficient products and technologies and to the involvement of new and innovative projects and fields of activities.

## In 2016, the Group will focus on the following:

- Constant sale and marketing activities in target markets. The participation in public tenders for important power distribution sector contracts in Finland, Sweden and the Baltic states.
- The start-up of new projects in the Allika Industrial Park and the continuous marketing of the Park.
- The re-organisation of the Keila Industrial Park according to the needs of customers and due to the release of the rented premises by PKC Eesti AS in 2017.
- Investment in the personnel, technology and real estate.
- Investments in the digitalisation projects related to business development, security and financial accounting.
- Continuation of reasonable investment activities.
- Constant improvement and development of the Harju Elekter Group as an organisation. Ensuring better readiness and capacity to react to possible changes in the future.
- Active search for, and launching of, financial investment, merger and transposition opportunities.



# 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.

In the reporting year, the 2012-2015 option programme was carried out and 339,880 shares were subscribed. After the issue, the share capital of AS Harju Elekter is 12.42 million euros, which is divided into 17.74 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.

The year 2015 was a complicated one for the world's stock exchanges. During the year several events occurred that did not make investors happy and caused lots of uncertainty for them. The bubble burst in China, the Euribor was in freefall and the value of the euro and oil were falling. On top of that, investors were intimidated by the terror attack in Paris and

the developments related to the Greece and Chinese economies. All in all, it was a low productivity year for the world's stock exchanges where practically all asset classes were offering near zero yield. The world's most popular stock-index S&P 500 dropped by 0.7%, ending the year at the level of 2043.9 points. This ended a three year consecutive rise.

The OMX Baltic Benchmark GI, OMXBBGI, increased during the reporting year by 14.4%, amounting to 648.3 points. The OMX Tallinn (OMXT), increased by 19.1%, amounting to 899.0 points, the OMX Riga (OMXR) grew by 45.7%, reaching to 594.4 and the OMX Vilnius (OMXV), increased by 7.4% and to 486.0 points. The turnover was the largest in the Tallinn Stock Exchange.

As to the whole year, the Tallinn Stock Exchange OMXT with its 19% yield (2014: -7.7%) was the 12th ranked among all the stock exchanges in the world. The total annual number of transactions reached was 49,129 with a total value of 148.1 million euros. The number of transactions decreased by 2.7%, while the turnover increased by 16.3%.

339,880 shares  
were subscribed

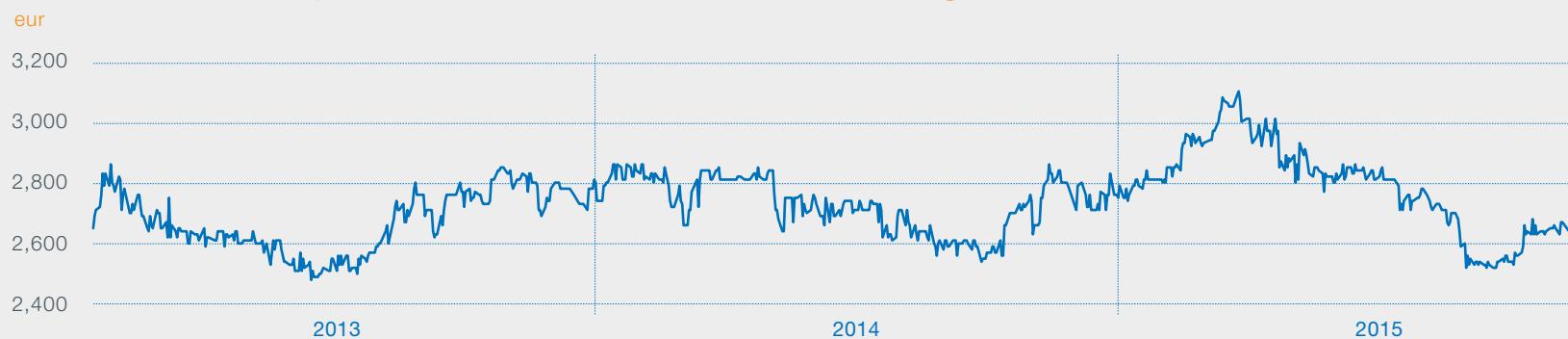
## Key share data

EUR

	2015	2014	2013	2012	2011
Number of shares (in thousand)	17,550,851	17,400,000	17,400,000	17,093,443	16,800,000
Nominal value	0.70	0.70	0.70	0.70	0.70
Highest price	3.14	2.85	2.92	2.80	3.54
Lowest price	2.49	2.52	2.46	2.30	2.19
Closing price	2.63	2.79	2.70	2.64	2.28
Change (%)	-5.7	3.3	2.3	15.8	-23.8
Market value (in million)	46.66	48.55	46.98	45.94	38.30
Traded shares (pc)	1,086,451	800,823	936,162	759,869	663,917
Turnover (in million)	2.98	2.17	2.48	1.88	1.88
Earnings per share, EPS	0.18	0.56	0.30	0.21	0.17
P/E	14.61	4.98	9.50	12.57	13.41
Dividend per share	*0.05	0.15	0.10	0.09	0.07
Dividend yield (%)	1.9	5.4	3.7	3.4	3.1
Dividend payout ratio (%)	27.8	26.6	33.7	44.5	42.4

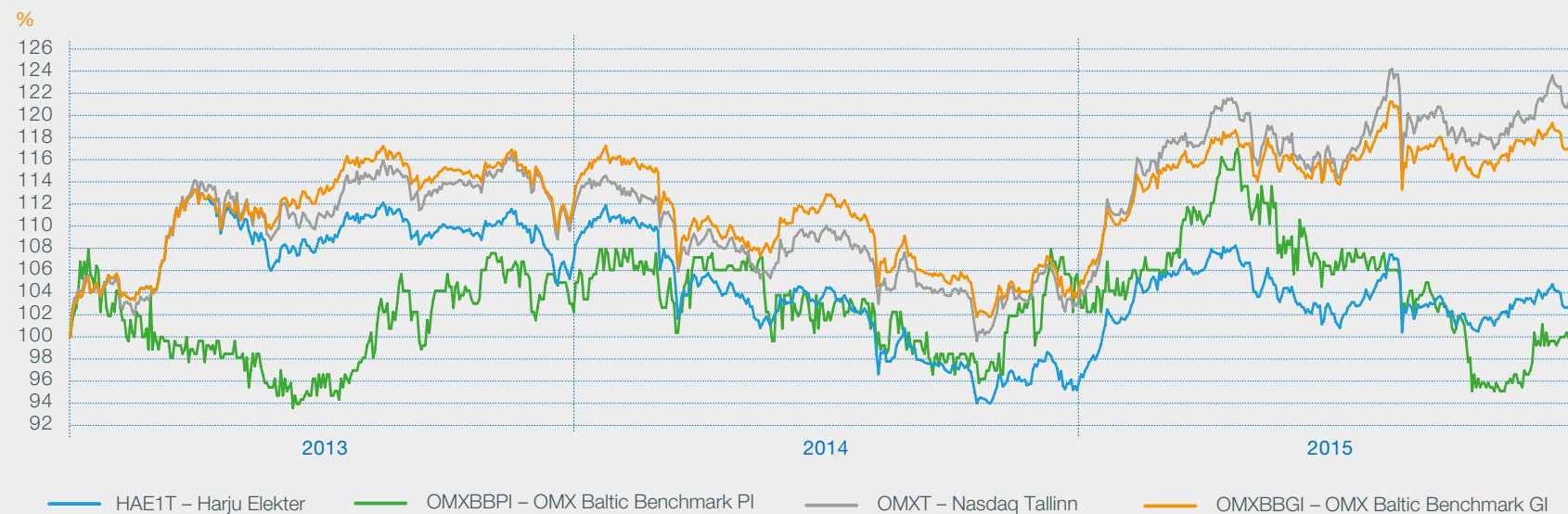
\*Proposal of the Management Board

## Share of AS Harju Elekter in Tallinn Stock Exchange 2013–2015



## A comparison of AS Harju Elekter share indexes 2013–2015

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



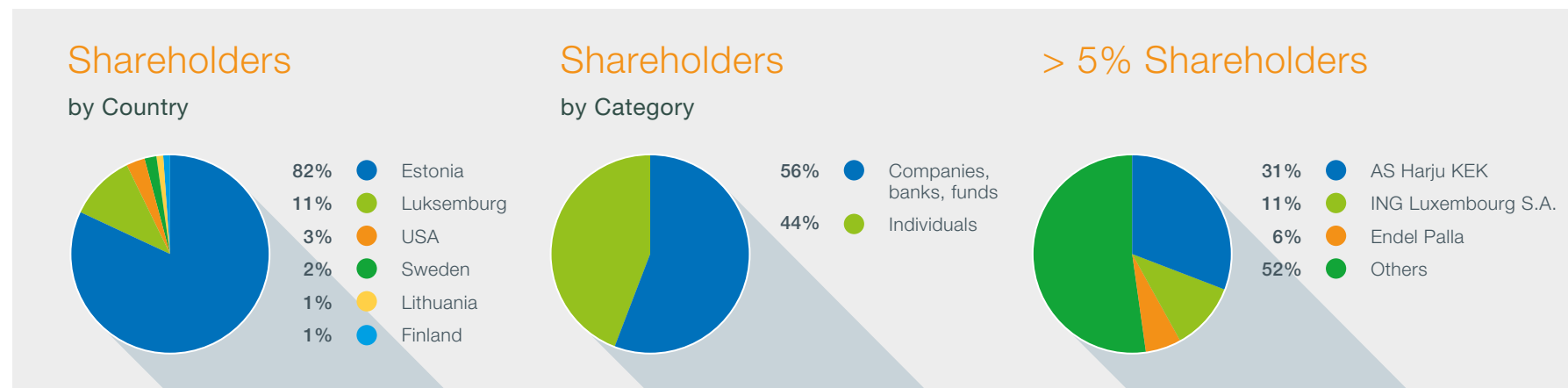


## Shareholders structure, at 31 December 2015

At the end of 2015, AS Harju Elekter had 1,777 shareholders. The number of shareholders increased during the year by 304 persons. The largest shareholder of AS Harju Elekter is AS Harju KEK, a company based on local capital which as at December 31, 2015 held 31% of AS Harju Elekter share capital. Foreign equity participation is 17%. Members of the supervisory and management board and persons or companies associated with them hold 10.34% of the shares. The comprehensive list of shareholders is available at the website of the Estonian Central Register of Securities ([www.e-register.ee](http://www.e-register.ee)).

## Shareholder structure by size of holding

Holding	No of shareholders	% of all shareholders	% of votes held
> 10%	2	0.11	42.10
1.0 – 10.0%	10	0.56	24.42
0.1 – 1.0%	69	3.89	18.19
< 0.1%	1,696	95.44	15.29
<b>Total</b>	<b>1,777</b>	<b>100,0</b>	<b>100.0</b>

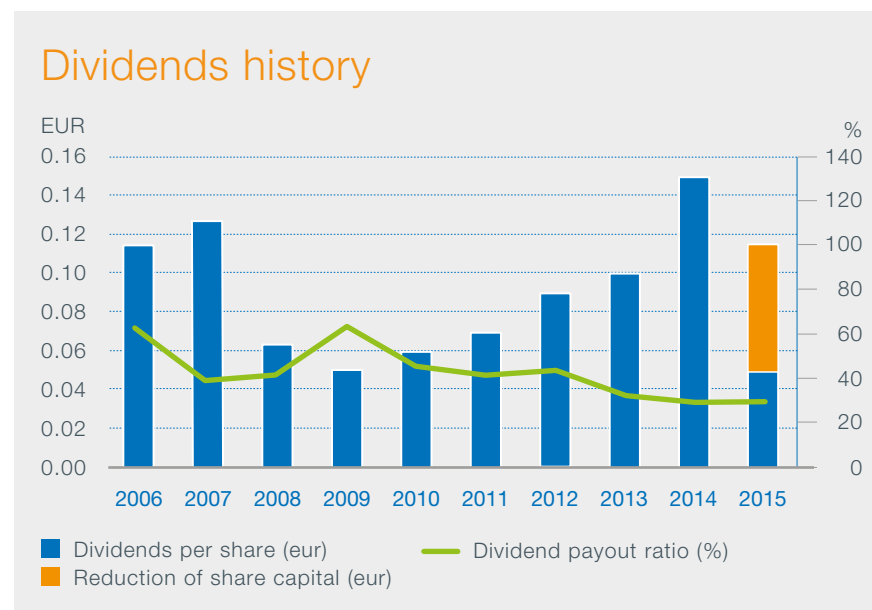


## Payments to from shareholders

### 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.

**The Management Board proposes to pay a dividend of 0.05 (2014: 0.15) euros per share, totally 0.88 (2014: 2.61) million euros for the financial year 2015.**



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

### Reduction of share capital

The Management Board makes a proposal, reconciled with the Supervisory Board, to decrease the share capital by 1.23 million euros to 12.48 million euros and to make a payment of 0.07 euros per share to the shareholders.

The total payments from shareholders' equity is 2.13 (2014: 2.61) million euros.



# CORPORATE GOVERNANCE

## Corporate Governance Report 2015

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 2015, 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.*

According to the Supervisory Board's decision it is deemed rational to elect just one member to the Management Board. Managing director/CEO is responsible for the performance of company's strategic areas. He concludes the contract of service.

### CGC Article 2.2.7

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

The member of the Board is remunerated according to the contract of service. 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 2015 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 2015, members of the Supervisory Board of AS Harju Elekter, Triinu Tombak and Andres Toome act as members of the Committee. The Audit Committee has the following tasks: observe and analyse the processing of financial information; the efficiency of risk management and internal audit; the process of audit control of 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 Recommendations Report.*

During the reporting year, all of the members have attended most or all of the meetings.

### CGC Article 3.3.2

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

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 2015 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 14 May 2015 elected the auditing company KPMG Baltics OÜ as an auditor for the company for the period 2015–2017. 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.



## 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 2015 was held on 14 May at Keskväljak 12 in Keila, Estonia. A total of 71.2% of the voting stock were represented. The general meeting approved the 2014 annual report and profit distribution as well as appointed KPMG Baltics OÜ to perform the audit of AS Harju Elekter on the years 2015-2017 and resolved to realize the targeted share option program, approved by the AGM on 3.5.2012. Presentations were

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

### Supervisory Board

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. 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 2015, the supervisory board met eight times. All members of the supervisory board attended most of the meetings.

On 3 May 2012, the AGM assigned a five-member Supervisory Board for the next five-year period as follows: Endel Palla (chairman), Ain Kabal, Madis Talgre, Triinu Tombak and Andres Toome. Following the letter of resignation from a member of the Supervisory Board, Madis Talgre, submitted on April 16, 2014 the AGM held on May 8, 2014 approved Aare Kirsme as a new member of the Supervisory Board. Since 8th of May 2014, 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 (Estonian Defence Forces, Head of legal department), 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 company's R&D manager position since 1999. Mr Kabal, head of legal department in Estonian Defence Forces is a lawyer, who has experiences in advising Group's companies on legal issues. Mr Toome (chairman of OÜ Tradematic) complements the Board with investment experience since 2007. In 2012 was appointed a member of the Supervisory Board Mrs 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 31% of the shares of the company on 31.12.2015). 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. Only exception is Chairman of the Supervisory Board, who is entitled to termination benefits that may extend to 6 monthly remuneration of a development manager. At 31 December 2015, the members of the Supervisory Board owned in accordance with their direct and indirect ownerships totally 9.1% (2014: 8.4%) 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 member of the Board is remunerated according to the contract of service. In addition, the manager is entitled to receive a severance payment

in the amount of 10 months' remuneration of a member of the Management Board. The managing director/CEO is not entitled to any pension benefits from the Group.

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 2015, the members of the Management Board owned in accordance with their direct and indirect ownerships totally 1.3% of AS Harju Elekter shares (Note 23).

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

## Additional management bodies and special committees

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 control specialist 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 (14.5.2015) the audits of AS Harju Elekter for the years 2015–2017 are carried out by KPMG Baltics OÜ. Audits in subsidiaries outside of Estonia are carried out by KPMG Baltics UAB in Lithuania and KPMG Oy in Finland.



# SOCIAL RESPONSIBILITY AND CHARITY

## Social Responsibility Report 2015

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

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

## Bearing of social responsibility

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

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

### Supporting the education of engineers in Estonia

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

### Supporting and inspiring young sportsmen

The company has, above all, supported youth sports - focusing on long-term and constant sponsorship and taking into account the popularity of the sports. For several years the company has sponsored the young skiers and athletes of Nordic countries combined with the Estonian Ski Association. As from the season 2008/2009 the company has also supported the skier Algo Kärp. The future projects of the Estonian Ski Association are also aimed at the focusing to children and young athletes. The main target is to work with a large amount of young people, who could represent Estonia in the future.

### 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 2015 amounted to 21.5 (2014: 24.4) thousand euros.

# Information About the Supervisory and Management Boards



**Endel Palla** (19.06.1941)  
Chairman of the Supervisory Board

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

**Career:** 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, AS Laagri Vara, AS KMV, AS Entek

Ch of the Management Board: Satmatic Oy

Member of the Management Board: Rifas UAB, Finnkumu Oy

**Endel Palla owns** 1,134,000 of Harju Elekter shares. He has direct participation 6.39% and indirect participation 0.36%.



**Ain Kabal** (10.06.1962)  
Member of the Supervisory Board

**Education:** University of Tartu, lawyer

**Career:** 1985–1989 Forensic Science Laboratory, senior expert  
1990–1992 EKE International, lawyer/vice manager  
1993–2001 BCLO Law Offices, manager  
2001– Kabal & Partners OÜ, manager

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

Manager: Kabal & Partners OÜ, Prilleib OÜ

**Social activities:**

Harju County Entrepreneurship and Development Consultancy, member of the Council

**Ain Kabal owns** 10,275 of Harju Elekter shares. He has direct participation 0,06%. He doesn't have indirect holdings.



**Aare Kirsme** (8.11.1975)  
Member of the Supervisory Board

**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

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

Ch of the Supervisory Board: AS Harju KEK, AS Entek, AS KMV, AS Laagri Vara, OÜ KEK Kinnisvara

Member of the Supervisory Board: AS EKE Invest, AS Harju Elekter, OÜ Jõhvi Pargi Arendus, OÜ Merix Consulting

Member of the Management Board: OÜ Kirschmann, OÜ Devest Kaubandus, OÜ Silvertex

**Aare Kirsme owns** 228,250 of Harju Elekter shares. He has direct participation 1.29% and indirect participation 0.38%.





**Andres Toome** (9.01.1972)  
Member of the Supervisory Board

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

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

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

**Andres Toome owns** 30,000 of Harju Elekter shares.  
He has direct participation 0.17% and indirect participation 0.34%.



**Triinu Tombak** (7.01.1971)  
Member of the Supervisory Board

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

**Career:** 1993–1998 Estonian Investment Bank, Optiva Bank. Loan dept., 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** 15,000 of Harju Elekter shares.  
She has direct participation 0.08%. She doesn't have indirect holdings.



**Andres Allikmäe** (7.02.1957)  
Managing Director/CEO

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

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

**Participation in the management bodies of business organisations:**  
**Member of the Supervisory Board:** AS Harju Elekter Elektrotehnika, AS Harju Elekter Teletehnika  
**Ch of the Management Board:** Rifas UAB  
**Member of the Management Board:** Satmatic Oy, Harju Elekter AB, Finkkumu Oy

**Social activities:**  
2007– Estonian Association of Electrical Enterprises (EAEE), Vice president of the Management Board

**Andres Allikmäe owns** 225,000 of Harju Elekter shares.  
He has direct participation 1.27%. He doesn't have indirect holdings.

Please find the year 2015 audited annual report of AS Harju Elekter here  
[http://www.harjuelekter.ee/sites/default/files/public/pdfid/he\\_annualreport2015\\_eng.pdf](http://www.harjuelekter.ee/sites/default/files/public/pdfid/he_annualreport2015_eng.pdf)

AS HARJU ELEKTER  
Paldiski str 31  
76606 Keila, ESTONIA  
Tel +372 674 7400  
he@he.ee  
www.harjuelekter.ee