

Corporate Governance Report 2018

AS Harju Elekter largely follows the guidelines of the CGC, even though these are merely recommendations. However, AS Harju Elekter does not follow some of the requirements of the CGC, but the reason for that lies mainly in the specifics of the company's field of business. The reasons for not following these requirements of the CG are given below. Additionally, further information on the General Meeting of 2018, the Supervisory Board, Management Board and the corporate governance of AS Harju Elekter is given.

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.

AS Harju Elekter does not have such technical means and therefore there is no possibility to participate in or follow the General Meeting via telecommunications equipment.

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 amount of the remuneration paid to a member of the Management Board and the terms of payment are determined by a resolution of the Supervisory Board and by agreement of the parties these are not subject to disclosure. The Chairman of the Management Board is entitled to a severance pay to the extent of up to ten months' remuneration, while other members of the Management Board are entitled to a severance pay to the extent of up to eight month's remuneration of a Management Board member.

Performance pay is paid to the members of the Management Board on the same grounds as to the administrative staff of the parent company. Performance pay is divided on the basis of the basic remuneration and work contribution, thereby the performance pay of a member of the Management Board is coordinated with the Chairman of the Supervisory Board. Performance pay is paid on a quarterly basis to the

extent of 80%, while the remaining 20% is paid out after the approval of the results of the financial year.

The top management, including Management Board members also receive an annual bonus, which amounts to 0.8% of the consolidated net profit. The annual bonus is approved by the Chairman of the Supervisory Board and it is paid out after the Group's annual accounts have been audited.

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 an Audit Committee in the company and approved the statutes of the committee because of a requirement arising from the Auditors Activities Act. In 2018, the duties of a committee member were performed by Triinu Tombak and Andres Toome. Information on the Audit Committee has been published on the company 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 AGM of the shareholders of AS Harju Elekter is competent to approve the composition and elect members of the Supervisory Board and their term of office. The AGM of shareholders held on 27 April 2017 approved the composition and members of the Supervisory Board for the next five years, setting the Supervisory Board member remuneration to 1,000 euros a month and the remuneration of the Chairman of the Supervisory Board to 1,600 euros a month as of 4 May 2017. In addition, the remuneration of a member of the Supervisory Board for participating in a meeting was set to 200 euros, but no remuneration is paid if a member of the Supervisory Board participates in a meeting over the telephone. The bonus system effective in the company is applied to a member of the Supervisory Board who works in the management (for further information see item 2.2.7 of the CGC). No severance pay is

paid to a member of the Supervisory Board. The next elections of the Supervisory Board are held at the AGM of shareholders held in 2022.

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 refrain from a conflict of interests and follow the requirements of the prohibition on competition. The Supervisory Board and the Management Board cooperate closely, adhering to the law and the articles of association, and keep in mind the interests of shareholders. No such conflicts of interests occurred in 2018.

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 Management Board of the company finds that the strategy is part of the company's business secrets and not subject to disclosure. The general directions and important topics are given 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.

In its activities, the company always follows the principle of the equal treatment of shareholders. Mandatory, important and price-sensitive information is disclosed in the exchange system of Nasdaq Tallinn first, followed by the websites of the Estonian Financial Supervision Authority and the company. Furthermore, each shareholder has the right to ask the company for additional information and set up meetings. The Management Board of the company does not consider it necessary to keep a timetable and daily schedule of various shareholder meetings, because the meetings are limited to the disclosed information. This rule applies to all meetings, including those that take place immediately before the disclosure of financial reports.

CGC Article 6.2

Electing the auditor and auditing the consolidated financial statements.

On 3 May 2018, the General Meeting of the shareholders of AS Harju Elekter elected AS PricewaterhouseCoopers as the audit firm for years 2018-2020. Information about the auditor is available on the company website. The auditor is remunerated in accordance with the contract concluded with the audit firm and by agreement of the parties the size of the remuneration is not disclosed. The next elections of the auditor will take place at the annual General Meeting of shareholders held in 2020.