

Corporate Governance Report 2019

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 is provided on the General Meeting of 2019, the Supervisory Board, Management Board and the corporate governance of AS Harju Elekter.

CGC item 1.3.3

Issuers shall make participation in the General Meeting possible by means of communication equipment (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 it is not possible to participate in or follow the General Meeting via telecommunications equipment.

CGC item 2.2.7

Basic wages, performance pay, severance packages, other payable benefits and bonus schemes of a Management Board member as well as their essential features shall be published in a clear and unambiguous form on the website of the Issuer and in the Corporate Governance Report. Information published shall be deemed clear and unambiguous if it directly expresses the amount of an expense to the Issuer or the amount of a foreseeable expense as at 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 are not subject to disclosure by agreement of the parties. The Chairman of the Management Board is entitled to severance pay of up to ten months' remuneration, while other members of the Management Board are entitled to a severance pay 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, whereby the performance pay of a member of the Management Board is coordinated with the Chairman of the Supervisory Board. Up to 80% of performance pay is paid on a quarterly basis, while the remaining 20% is paid out after the approval of the results of the financial year.

The top management, including Management Board members also receive an annual bonus, which amounts to 1.0% collectively of the consolidated net profit. The annual bonus is approved by the Chairman of the Supervisory Board and it is paid out after the Group's annual accounts have been audited.

CGC item 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 2019, 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 item 3.2.5

The amount of remuneration of a member of the Supervisory Board shall be published in the Corporate Governance Report, indicating separately basic and additional pay (incl. compensation for termination of contract 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's remuneration to 1,000 euros a month and the remuneration of the Chairman of the Supervisory Board to 1,600 euros a month from 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 will be held at the AGM of shareholders in 2022.

CGC item 3.3.2

Members of the Supervisory Board shall promptly inform the Chairman of the Supervisory Board and Management Board regarding any business offer related to the business activity of the Issuer made to him, a person close to him or a person connected with him. All conflicts of interests that have arisen in the preceding year shall be indicated in the Corporate Governance Report along with their resolutions.

Members of the Supervisory Board refrain from conflicts of interest 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 interest occurred in 2019.

CGC item 5.3

On the Issuers web site, among other things, the general strategy directions of the Issuer as approved by Supervisory Board shall be accessible to the shareholders.

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 outlined in the Management Report.

CGC item 5.6

The Issuer shall disclose the dates and places of meetings with analysts and presentations and press conferences organized for analysts, investors or institutional investors on its website. The Issuer shall allow the shareholders to participate in these events and make presentations available on its website. The Issuer shall not arrange meetings with analysts and presentations organized for investors directly before dates of publishing a financial report.

In its activities, the company always follows the principle of the equal treatment of shareholders. Mandatory, important and price-sensitive information is first disclosed in the exchange system of Nasdaq Tallinn, 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 item 6.2

Election of the Auditor and Auditing of the Annual Accounts.

At 3 May 2018, the General Meeting of the shareholders of AS Harju Elekter elected AS PricewaterhouseCoopers as the audit firm for the years 2018-2020. Information about

the auditor is available on the company's 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 to be held in 2021.